

**COMPREHENSIVE ANNUAL**  
**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2004**

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

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JUNE 30, 2004

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**SECTION I**  
**INTRODUCTION**

# RISK

## Michigan Municipal MANAGEMENT AUTHORITY

October 25, 2004

### BOARD OF DIRECTORS

KURT HUMPHREY  
*Chairman*  
Newaygo County

RONALD LEE  
*Vice Chairman*  
Charter Township  
of Saginaw

MICHAEL WELSCH  
*Secretary*  
Iosco County

RICHARD BURKE  
Ishpeming

J. MICHAEL DORNAN  
Wixom

CINDY KING  
Charter Township  
of Van Buren

JAMES KOHMESCHER  
Wyoming

LEONARD PETERS  
Eaton County

JAMES SCHARRET  
Southfield

THOMAS YACK  
Charter Township  
of Canton

GERALD BUCKLESS  
*Board Member Emeritus*

MICHAEL L. RHYNER  
*Executive Director*

Board of Directors  
Michigan Municipal Risk Management Authority  
Livonia, Michigan 48154

Gentlemen:

Michigan Municipal Risk Management Authority (MMRMA) is a public self-insurance pool that provides property and liability coverages to its participating Members. Membership is limited to municipal corporations as defined by Michigan Statute.

MMRMA was formed in 1980 under statutes enacted to implement the authority granted by Article 7, Sections 27 and 28 of the Constitution of the State of Michigan, which authorizes local units of government to contract with each other for the joint administration of any functions or powers which each would have the power to perform separately. Public Act, 1982, No. 138 specifically authorized local units of government to contract jointly to undertake cooperative action to provide risk management and self-insurance coverages. MMRMA was incorporated January 1, 1980 as an intergovernmental agency.

MMRMA is financed by contributions from its member municipal corporations. Contributions paid by Members are based upon underwriting criteria and guidelines approved by the Board of Directors. Contributions are calculated by applying uniform base rates to the various loss exposures and using experience modification factors to set pricing. Net operating expenditures, number of employees, size of payroll, size and complexity of operations, loss experience, loss control efforts, and other relevant risk-related criteria are factors considered in price setting.

MMRMA has three categories of membership: Individual Members--individual municipal corporations, each maintaining a separate self-insured retention; Pool Members, an association of risk-sharing members; and Affiliated Members, which are other "Public Act 138" organizations that contract with MMRMA for certain services. The only current Affiliated Member is the Michigan Community College Risk Management Authority, which contracts with MMRMA for reinsurance, claims adjusting, and underwriting services.

EXHIBIT I-A

Board of Directors

October 25, 2004

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Individual Members each maintain a minimum amount of funds, in an amount established by the Executive Director, on deposit with MMRMA. The Pool, acting as a single member, also maintains funds on deposit with MMRMA. Members' funds on deposit, while accounted for in the Members' Retention Fund, are used to pay claims and related loss adjustment expenses that are obligations of the Members and to cover Member meeting expenses.

Potential members, who meet membership eligibility and underwriting guidelines, are accepted into MMRMA upon recommendation of the MMRMA Membership Committee and with the approval of two-thirds of the total membership of the Board of Directors.

### **Financial Management**

The 2004 Financial Report reflects MMRMA's twenty-fourth year of operation. The report has been prepared by Quenneville & Associates, P.L.L.C., (Q & A), the accounting firm responsible for performing all MMRMA accounting and treasury functions. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. MMRMA books are recorded on a full accrual basis also in accordance with generally accepted accounting principles. A summary of significant accounting policies is discussed in the notes to the financial statements found in the financial section.

Q & A accounts for the MMRMA's General Fund and the Member Retention Fund. In fulfilling their responsibilities, Q & A has developed a reliable system of internal controls. This system is designed to provide reasonable assurance that assets are effectively safeguarded and that transactions are executed and properly recorded with appropriate authorizations.

Ernst & Young, LLP (EY), independent public accountants, provide an objective, independent audit of MMRMA's financial position and results of operations. EY's examination is conducted in accordance with generally accepted auditing standards. Those standards require that EY plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Board of Directors  
October 25, 2004  
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An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit report is submitted to the Audit Committee and Board of Directors.

In addition, Tillinghast, a Towers Perrin Company, conducts independent actuarial analyses to confirm the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves. Their report is also submitted to the Audit Committee and Board of Directors.

### **The Comprehensive Annual Report**

Part I--Introductory Section: Contains information regarding MMRMA's management structure, executive officers, and the financial reporting requirements set forth in Board directives. This information provides the basis for understanding the Comprehensive Annual Financial Report.

Part II--Financial Statements: Includes all financial statements prepared from MMRMA's books and records for the twenty-fourth year of operation. The Financial Section has been examined by MMRMA's independent public accountants, Ernst & Young, LLP, as required by the Board of Directors. A copy of EY's report dated August 27, 2004, is included in the Financial Section.

Part III--Supporting Financial Data: Contains certain data pertaining to claim reserves, investments, and administrative expenses that further support the data presented in the Financial Section. This data is of general interest to the Members and is used for future decision making. Unless otherwise indicated, the data in this section relates only to the risk retained by MMRMA and its reinsurers.

Part IV--Statistical Data: Contains certain data pertaining to cumulative claim activity, loss development, comparative financial information, and demographic data. Unless otherwise indicated, the data in this section relates only to the risk retained by MMRMA. The independent actuarial report prepared by Tillinghast is incorporated by reference in this report.

## Financial Highlights

Total Member and associated program contributions to MMRMA as well as commutation payments from reinsurers for the year ended June 30, 2004, were \$66,113,873. Of this amount, \$16,453,688 (25%) was placed in the Members' Retention Fund to cover member deductibles and retentions. The remaining \$49,660,185 (75%) was used to pay for the risk retained by MMRMA, outside reinsurance, claims management, underwriting, risk management, and administrative expenses.

MMRMA realized \$20,662,623 in investment income, of which \$19,865,845 was credited to MMRMA's General Fund and \$796,778 credited to the Members' Retention Fund.

The total of General Fund contributions and net investment income was \$69,526,030. Of this amount, \$9,121,140 was allocated for underwriting, risk management, sales, and administrative costs. Within the claim related activity, \$13,830,482 was paid for losses and \$14,069,985 for outside reinsurance expense. The Reported and IBNR reserves increased by \$2,379,832 from the previous year. The above activity resulted in an increase in the Net Assets for the year of \$30,124,591.

## Reinsurance Fund Coverages

MMRMA started carrying risk on July 1, 1985, at which time it began to participate in both the property and liability reinsurance treaties.

### **JULY 1, 1994 to JUNE 30, 1996**

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100.0%
AUTO PHYSICAL DAMAGE	100.0%

## JULY 1, 1996 to JUNE 30, 1998

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
<b>PROPERTY</b>	
Individual Claims up to \$100,000 after 10% to Member	100.0%
Individual Claims: \$400,000 X \$100,000	100.0%
<b>AUTO PHYSICAL DAMAGE</b>	100.0%

## JULY 1, 1998 to JUNE 30, 2002

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X 1,000,000	~
Individual Claims: \$3,000,000 X 2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	100.0%
<b>PROPERTY</b>	
Individual Claims up to \$100,000 after 10% to Member	100.0%
Individual Claims: \$400,000 X \$100,000	100.0%
<b>AUTO PHYSICAL DAMAGE</b>	100.0%



## JULY 1, 2002 to MARCH 31, 2004

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100.0%
Individual Claims: \$4,000,000 X \$1,000,000	27.5%*
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
<b>PROPERTY</b>	
Individual Claims up to \$100,000 after 10% to Member	100.0%
Individual Claims: \$400,000 X \$100,000	100.0%
<b>AUTO PHYSICAL DAMAGE</b>	100.0%

\*20% until March 31, 2003, 27.5% thereafter

## APRIL 1, 2004 to MARCH 31, 2005

Individual Claims: \$925,000 X \$75,000	100.0%
Individual Claims: \$4,000,000 X \$1,000,000	15.0%
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
<b>PROPERTY</b>	
Individual Claims up to \$100,000 after 10% to Member	100.0%
Individual Claims: \$400,000 X \$100,000	100.0%
<b>AUTO PHYSICAL DAMAGE</b>	100.0%

The above percentages of risk retained do not include additional risk applicable to reinsurers who have commuted their losses or become insolvent.

Board of Directors  
October 25, 2004  
Page Seven

MMRMA has entered into the reinsurance agreements with commercial reinsurers providing for loss coverage in excess of the amounts to be retained by MMRMA and Individual Members. This MMRMA program provides up to \$15 million of occurrence-based liability coverage for each incident.

Under the MMRMA Property Program, each member is provided coverage on a replacement cost basis with a maximum available amount of \$50 million on any one structure, unless specifically scheduled for additional coverage.

The Auto Physical Damage Program provides up to \$1,500,000 per occurrence. MMRMA retains 100% of the limits of coverage above the member self-insured retentions.

In lieu of the \$5 million statutorily required excess aggregate policy, MMRMA has placed a \$5 million bond on deposit with the State of Michigan as allowed by statute.

### **Cost Containment**

MMRMA provides its members with a host of services to control risk with the ultimate goal of containing costs. These services are provided by a team of five risk control consultants covering both peninsulas. Exposures to loss are identified and the risk control resources are provided to eliminate or reduce such exposures. This heavy emphasis on field work affords members with personalized contact on a regular basis.

In addition, MMRMA provides regional training to control losses in various areas of municipal operations. A group of eight Advisory Committees are utilized in this area. These include:

- Administrative
- Parks & Recreation
- DPW
- Law Enforcement
- U.P. Law Enforcement
- Court Security
- 911/Telecommunications
- Fire/EMT

These committees consist of Member employees holding job responsibilities related to the activities of the committee. The advisory committees meet throughout the year to produce model policies and procedures and to facilitate training activities.

**Self-Insured Retention**

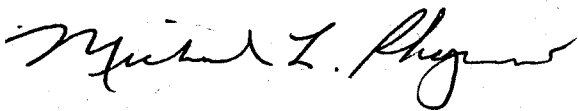
MMRMA receives funds from its Members to cover the deductible and retention portions of their losses. An Individual Member's maximum retention on general liability and auto liability is between \$75,000 and \$1,000,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the next \$100,000 to be paid by the Member. The retention on auto physical damage coverage is \$15,000 per unit and \$30,000 per occurrence.

**Concluding Comments**

The overall financial condition of MMRMA is excellent after the twenty-fourth year of operation. MMRMA has been able to afford its Members significant cost savings, as well as providing superior coverages and services. Since its inception on January 1, 1980, MMRMA has become an indispensable alternative to commercial insurance for Michigan governmental entities.

Finally, the preparation of the Comprehensive Annual Financial Report was a collaborative effort on the part of many people at MMRMA. I expect no significant changes in the immediate future.

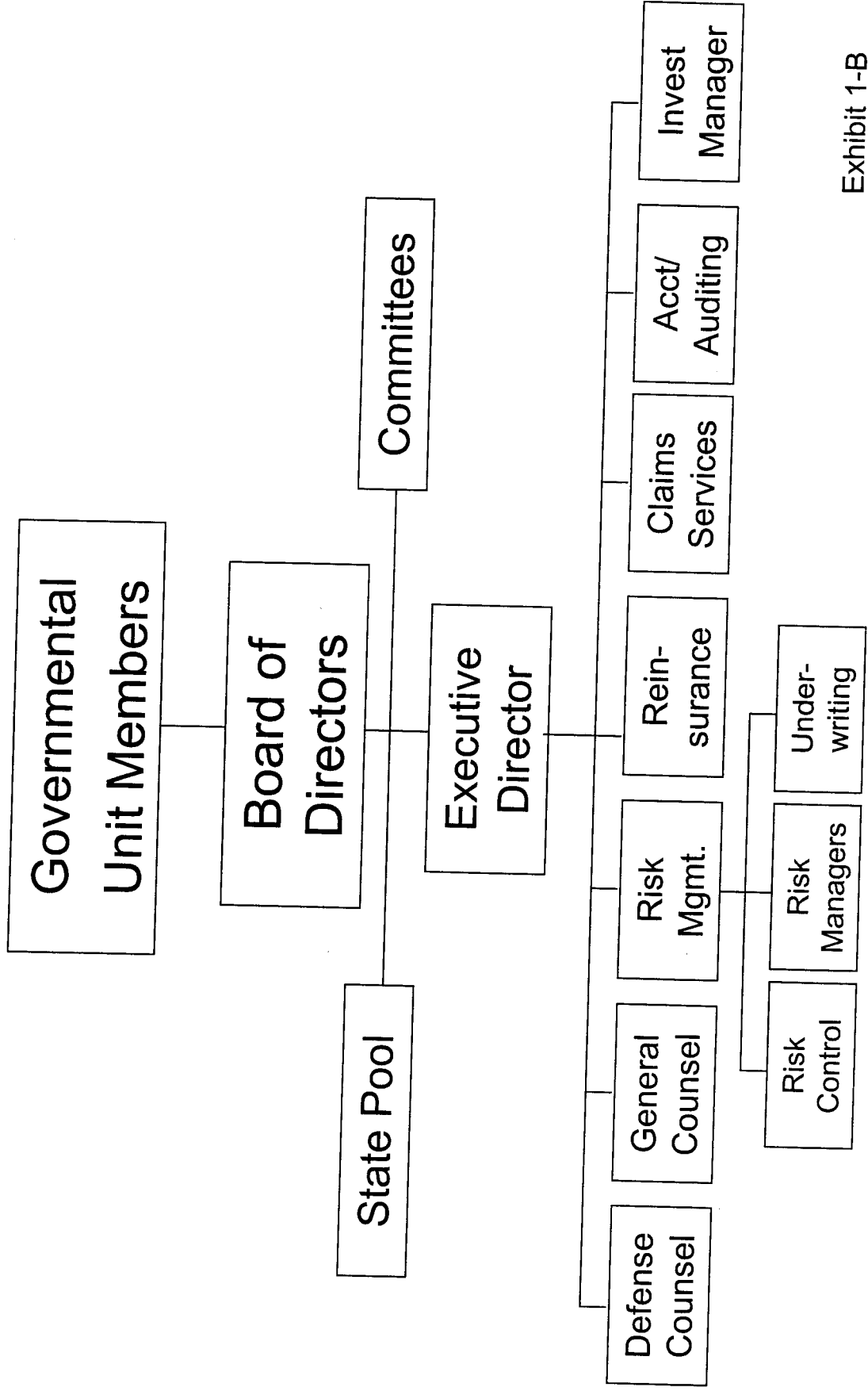
Respectfully submitted,



Michael L. Rhyner  
Executive Director

MLR/ce

# MMRMA Organizational Chart



# **MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**

## **Executive Officers and Board of Directors**

### **Chairman**

KURT HUMPHREY

### **Vice-Chairman**

RONALD LEE

### **Secretary**

MICHAEL WELSCH

### **Executive Director**

MICHAEL L. RHYNER

### **Board Members**

RICHARD BURKE  
J. MICHAEL DORNAN  
CINDY KING  
JAMES KOHMESCHER  
LEONARD PETERS  
JAMES SCHARRET  
THOMAS YACK

GERALD BUCKLESS  
*Board Member Emeritus*

**MMRMA ACTIVE MEMBERS  
AT JUNE 30, 2004**

**Member Name**

35<sup>th</sup> District Court  
47<sup>th</sup> District Court  
911 Midland County Central Dispatch  
Addison, Township Of  
Alba Fire Board  
Alger, County Of  
Algonac Housing Commission  
Algonac, City Of  
Allegan County C.M.H.S.  
Allegan, County Of  
Alma, City Of  
Ann Arbor Dda  
Antrim, County Of  
Arenac, County Of  
Ausable Valley C.M.H.S.  
Bangor, Charter Township  
Barry County C.M.H.S.  
Barry, County Of  
Barry-Eaton District Health  
Bay City, City Of  
Bay, County Of  
Bay-Arenac Behavioral Health  
Belleville, City Of  
Benzie County Council on Aging  
Benzie, County Of  
Benzie County Medical Care Facility  
Benzie-Leelanau D.H.D.  
Berrien County C.M.H.S.  
Berrien, County Of  
Beverly Hills, Village of  
Bingham Farms, Village Of  
Bloomfield, Charter Township  
Bloomfield Hills, City Of  
Brady, Township Of  
Branch, County Of  
Branch-Hillsdale-St. Joseph CHA  
Brandon, Township Of  
C.C.E. Central Dispatch Authority  
CMH For Central Michigan  
Cablecasting Board  
Calhoun, County Of  
Calvin, Township Of  
Canton, Charter Township Of  
Caro, Village Of  
Carson City, Village Of  
Cass, County Of  
Central Area Michigan Works! Consort.

**Member Name**

Central Land Fill Authority  
Central Michigan Dist Hlt Dept.  
Central Wayne Co Sanitation  
Cheboygan Area Public Library  
Cheboygan, City Of  
Cheboygan County Airport Authority  
Cheboygan County Council on Aging  
Cheboygan, County Of  
Chesaning-Brady Fire Dept.  
Chestonia, Township Of  
China, Charter Township Of  
Chippewa River Library Dist.  
Chippewa County EDC  
Chippewa, County Of  
Clare, County Of  
Clawson, City Of  
Clay, Township Of  
Clinton, County Of  
Clinton-Eaton-Ingham C.M.H.S.  
Columbus Township Of  
Copper Country Mental Health  
Davison, City Of  
Dearborn Heights, City Of  
Delta, County Of  
Dewitt Area Recreation Authority  
Dewitt, Township Of  
Dexter, Village Of  
Dickinson County Library System  
Dickinson County Solid Waste  
Dickinson, County Of  
Dickinson-Iron Dist. H.D.  
District Health Dept. #10  
Dowagiac, City Of  
Downriver Community Conference  
Downriver Recreation Commission  
East Central Michigan Planning  
Eastpointe, City Of  
Eaton County MCF  
Eaton, County Of  
Emmett, Township Of  
Escanaba Housing Commission  
Escanaba, City Of  
Essexville, City Of

**Member Name**  
 Farmington, City Of  
 Farmington Hills, City Of  
 Fenton, Township Of  
 Ferndale, City Of  
 Fonda Island-Briggs Lake JWA  
 Franklin, Village Of  
 Frenchtown Charter Twp Resort  
 Garden City, City Of  
 Genoa-Osceola Water & Sewer  
 Gladstone, City Of  
 Gladwin, County Of  
 Gogebic CMH Authority  
 Gogebic, County Of  
 Gogebic Medical Care Facility  
 Grand Ledge, City Of  
 Grand Ledge Area Dist. Library  
 Grand Rapids, City Of  
 Grand Traverse, County Of  
 Grand Traverse County D.P.W.  
 Grand Valley Biosolids Authority  
 Gratiot, County Of  
 Green Oak, Township Of  
 Grosse Pte. Shores, Village Of  
 Hampton, Township Of  
 Hamburg, Township Of  
 Hazel Park, City Of  
 Hiawatha Behavioral Health  
 Highland, Charter Township  
 Hillsdale, County Of  
 Howell Area Fire Authority  
 Howell, City Of  
 Howell Twp. Sanitary Sewer Dist.  
 Huntington Woods, City Of  
 Huron Behavioral Services  
 Huron, Charter Township Of  
 Huron County Health Department  
 Huron, County Of  
 Independence, Township Of  
 Ingham, County Of  
 Intergovernmental Cable Comm.  
 Interurban Transit Authority  
 Ionia County 911  
 Ionia County C.M.H.S.  
 Ionia, County Of  
 Iosco, County Of  
 Iron, County Of  
 Ironwood, City Of  
 Iron Mountain, City Of  
 Iron Mountain-Kingsford Sewage

**Member Name**  
 Isabella County Med Care Facility  
 Isabella, County Of  
 Isabella County Transportation  
 Ishpeming, City Of  
 Jackson County Medical Care  
 Jackson, County Of  
 Kalamazoo, City of  
 Kalamazoo, County of  
 Kalamazoo County C.M.H.S.  
 Kalkaska, County Of  
 Keego Harbor, City Of  
 Kent, County Of  
 Kimball, Township Of  
 L.M.A.S. District Health Dept.  
 Lake Angelus, City Of  
 Lake, County Of  
 Lansing, Ingham Jba  
 Lapeer County Library  
 Lapeer, County Of  
 Leelanau, County Of  
 Lenawee C.M.H. Authority  
 Lilley, Township Of  
 Livingston Community Water Authority  
 Livingston County C.M.H. Authority  
 Livingston, County Of  
 Livonia, City Of  
 Luce, County Of  
 Ludington, City Of  
 Mackinac, County Of  
 Madison Heights, City Of  
 Manistee County 911 Board  
 Manistee County Transportation  
 Manistee, County Of  
 Manistee-Benzie C.M.H.S.  
 Manton, City Of  
 Marquette Board Of Light & Power  
 Marquette County Solid Waste  
 Marquette Housing Commission  
 Marquette, County Of  
 Marquette County E.D.C.  
 Mason, City Of  
 Mason, County Of  
 Mason/Oceana 911 Central Dispatch  
 Meceola Central Dispatch

**Member Name**

Mecosta, County Of  
Menominee, County Of  
MHOG Water & Sewer Authority  
Midland, County Of  
Mid-Michigan Cable Communications  
Mid-Michigan District Health Dept  
Monroe Community Mental Health Auth.  
Monroe, County Of  
Montcalm Ctr For Behavioral Health  
Montmorency, County Of  
Montmorency County Public Library  
Montmorency-Oscoda-Alpena Land.  
Mount Clemens, City Of  
Mt. Pleasant, City Of  
Municipal Employee Retirement  
Muskegon, City Of  
Muskegon, County Of  
Nankin Transit Commission  
Negaunee, City Of  
New Buffalo, City Of  
Newaygo County M.C.F.  
Newaygo County Mental Health  
Newaygo, County Of  
Newberry, Village Of  
Noble, Township Of  
North County CMH  
Northeast Michigan C.M.H.S.  
Northern Lakes CMH  
Northpointe Behavioral Health  
Northville District Library  
Northville, Charter Township Of  
Northville, City Of  
Northwest Michigan Comm Health  
Oakland County C.M.H.S.  
Oakland Cty Transportation  
Oakley, Village Of  
Oceana, County Of  
Oceana County MCF  
Older Persons Commission  
Orchard Lake Village, City Of  
Orion, Township Of  
Osceola, County Of  
Otsego, County Of  
Owosso, City Of  
Oxford, Village Of  
Paint Creek Trailways  
Parchment, City Of  
Pathways

**Member Name**

Paw Paw, Village Of  
Pere Marquette, Township Of  
Pinconning, City Of  
Pleasant Ridge, City Of  
Plymouth Housing Commission  
Plymouth, Charter Township Of  
Polly Ann Trailway Mgt Council  
Pontiac, City Of  
Port Huron, City Of  
Portage District Library  
Portage, City Of  
Public Health, Delta & Menominee Co.  
Redford Township Library  
Redford, Charter Township Of  
River Rouge, City Of  
Riverview, City Of  
Rochester Hills, City Of  
Roscommon, County Of  
Royal Oak, City Of  
Royal Oak, Township Of  
Runyan Lake Sanitary Sewer District  
Saginaw County 911  
Saginaw, Charter Township Of  
Sandusky, City Of  
Sandusky Community Fire Dept.  
Sanilac County C.M.H.S.  
Sanilac Medical Control  
Sanilac, County Of  
Sauble, Township Of  
Saugatuck -Douglas District Library  
Saugatuck Township Fire District  
Schoolcraft, County Of  
Scottville, City Of  
S.E. Livingston County Rec  
SEMCOG and MAC  
S.E. Oakland County Res. Recov. Auth.  
S.E. Oakland County Water Authority  
Shiawassee County C.M.H.S.  
Shiawassee County M.C.F.  
Shiawassee District Library  
Shiawassee, County Of  
South Haven , City Of  
South Lyon Housing Comm  
South Lyon Recreation  
Southern Clinton Utilities  
Southfield, City Of  
Southgate, City Of



**Member Name**

Southwestern Michigan Commission  
Southwestern Oakland Cable Comm.  
Springfield, City Of  
St. Clair County C.M.H.A.  
St. Clair Shores, City Of  
St. Clair, County Of  
St. Ignace, City Of  
St. Joseph County E.D.C.  
St. Joseph, City Of  
St. Joseph, County Of  
Summit Pointe  
Summit, Township Of  
Sylvan Lake, City Of  
Troy, City Of  
Tuscola Behavioral Health Systems  
Tuscola County Of  
Tuscola County Health Department  
Tyrone Lake Sanitary Sewer  
Upper Peninsula Public Power  
Valley, Township Of  
Van Buren County C.M.H.S.  
Van Buren, Charter Township Of  
Washington, Township Of  
Washtenaw Community Health Org.  
Waterford, Charter Township Of  
Wayne, City Of  
West Bloomfield Parks & Recrea  
West Bloomfield Twp Library  
West Bloomfield, Township Of  
West MI Shoreline Dev. Auth.  
West Michigan C.M.H.S.  
Western Mason Cty Fire Dist.  
Western Townships Utilities Auth.  
Western U.P. District Health  
Westland, City Of  
Wexford, County Of  
White Lake Fire Authority  
White Lake Community Library  
White Lake, Township Of  
White Pigeon Sanitary System  
Whitehall, City Of  
Wixom, City Of  
Wyoming, City Of

**Community Colleges**

Alpena Community College  
Bay De Noc Community College  
Delta College  
Glen Oaks Community College  
Henry Ford Community College  
Kalamazoo Valley Community College  
Lake Michigan College  
Macomb Community College  
Mid Michigan Community College  
Monroe County Community College  
Montcalm Community College  
Muskegon Community College  
North Central Michigan College  
Northwestern Michigan College  
Oakland Community College  
Schoolcraft Community College  
Southwestern Michigan College  
St. Clair County Community College  
Wayne County Community College  
West Shore Community College

**SECTION II**  
**FINANCIAL STATEMENTS**

AUDITED FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTAL FINANCIAL INFORMATION

Michigan Municipal Risk Management Authority

Years ended June 30, 2004 and 2003

With Report of Independent Auditors

Michigan Municipal Risk Management Authority

Financial Statements and Required  
Supplemental Financial Information

Years ended June 30, 2004 and 2003

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## Report of Independent Auditors

To the Board of Directors  
Michigan Municipal Risk Management Authority

We have audited the accompanying statements of net assets of Michigan Municipal Risk Management Authority (a municipal joint venture) (the Authority) as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Michigan Municipal Risk Management Authority as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis on pages 2 through 11, Supplemental Claims Development Information Schedule (unaudited) on page 28, and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (unaudited) on page 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Ernst & Young LLP*

October 12, 2004

# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis

Year ended June 30, 2004

This section of the Michigan Municipal Risk Management Authority's (the Authority) annual financial report presents our discussion and analysis of performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

The Authority is a public entity self-insurance pool that provides property and liability coverages to its participating Members. Membership is limited to municipal corporations as defined by Michigan Statute.

The Authority was formed in 1980 under statutes enacted to implement the authority granted by Article 7, Sections 27 and 28 of the Constitution of the State of Michigan, which authorizes local units of government to contract with each other for the joint administration of any functions or powers which each would have the power to perform separately. Public Act, 1982, No. 138 specifically authorized local units of government to contract jointly to undertake cooperative action to provide risk management and self-insurance coverages. The Authority was incorporated January 1, 1980, as an intergovernmental agency.

The Authority is financed by contributions from its member municipal corporations. Contributions paid by Members are based upon underwriting criteria and guidelines approved by the Board of Directors. The Authority has three categories of membership: Individual Members-individual municipal corporations, each maintaining a separate self-insured retention; Pool Members, an association of risk-sharing members; and Affiliated Members, which are other "Public Act 138" organizations that contract with the Authority for certain coverages and services. The only current Affiliated Member is the Michigan Community College Risk Management Authority, which contracts with the Authority for reinsurance, claims adjusting, and underwriting services.

Individual Members each maintain a minimum amount of funds, in an amount established by the Executive Director, on deposit with the Authority. The Pool, acting as a single member, also maintains funds on deposit with the Authority. Members' funds on deposit are accounted for on the cash basis in the Members' Retention Fund and are used primarily to pay claims and related loss adjustment expenses that are obligations of the Members.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Overview of the Financial Statements**

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The Authority's activity is maintained in one fund. The basic statements, which follow this section, provide both long-term and short-term information about the Authority's financial status. These basic financial statements report information about the Authority using the accrual method of accounting in accordance with accounting principles generally accepted in the United States. These statements reflect only the risk carried by the Authority, which also includes any potential unrecoverable reinsurance claims. The three basic financial statements presented are as follows:

- **Statements of Net Assets:** These statements present information reflecting the Authority's assets, liabilities and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- **Statements of Revenues, Expenses, and Changes in Net Assets:** These statements reflect the operating and non-operating revenues and expenses for the previous two fiscal years. Operating revenues primarily consist of member contributions with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses and reinsurance costs. Nonoperating revenues consist primarily of investment income.
- **Statements of Cash Flows:** The statements of cash flows are presented on the direct method of reporting which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the fiscal year.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Financial Analysis of Authority**

The statements report the Authority's net assets and how they have changed. Net assets - the difference between the Authority's assets and liabilities - is one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving, or deteriorating, respectively.

	2004	June 30 2003	2002
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 34,425,482	\$ 22,627,583	\$ 14,989,195
Member contributions receivable	4,862,076	5,424,844	4,051,712
Reinsurance recoverable	2,579,734	3,612,959	3,260,517
Fixed maturities at fair value	50,274,934	-	-
Equity securities at fair value	126,774,129	148,608,299	145,853,472
Prepaid expenses and other current assets	1,700,162	1,363,932	1,151,577
Total current assets	220,616,517	181,637,617	169,306,473
Noncurrent assets:			
Office building, net of accumulated depreciation	512,664	630,972	749,279
Total assets	221,129,181	182,268,589	170,055,752
<b>Liabilities</b>			
Current liabilities:			
Reserve for claims and claim adjustment expenses reported	6,546,205	6,063,257	7,293,124
Reserve for claims and claim adjustment expenses incurred but not reported	20,653,264	21,252,740	20,503,092
Reinsurance premiums and casualty treaty adjustments payable	283,189	3,664,740	4,439,730
Accrued expenses	1,354,853	1,389,461	1,540,901
Other liabilities	9,286,883	1,171,804	-
Unearned contributions	11,232,169	11,545,663	9,576,321
Member funds held on deposit	14,191,234	12,220,491	11,938,927
Total current liabilities	63,547,797	57,308,156	55,292,095
Reserve for claims and claim adjustment expenses reported, net of current portion	11,272,379	10,440,756	12,558,551
Reserve for claims and claim adjustment expenses incurred but not reported, net of current portion	35,564,330	33,899,593	35,305,739
Total noncurrent liabilities	46,836,709	44,340,349	47,864,290
Total liabilities	110,384,506	101,648,505	103,156,385
<b>Net assets</b>			
Invested in capital assets	512,664	630,972	-
Net unrestricted assets	110,232,011	79,989,112	66,899,367
Total net assets	\$ 110,744,675	\$ 80,620,084	\$ 66,899,367



Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

	Years ended June 30		
	2004	2003	2002
<b>Operating revenues</b>			
Member contributions, net	\$ 34,211,994	\$ 28,443,491	\$ 23,060,611
Electric Choice program revenue	5,654,505	4,688,026	1,292,757
Loss contributions from associated programs	1,192,629	988,183	986,051
Total revenues	41,059,128	34,119,700	25,339,419
<b>Operating expenses</b>			
Risk management, underwriting, and other expenses:			
Risk management and accounting expenses	3,860,969	3,676,909	3,357,756
Executive office, underwriting, claims, and other expenses, net	5,260,171	4,812,119	4,518,198
Electric Choice program expenses	5,468,928	4,523,109	1,255,584
Total risk management, underwriting, and other expenses	14,590,068	13,012,137	9,131,538
Net contributions available for claims and related expenses	26,469,060	21,107,563	16,207,881
<b>Claims and related expenses</b>			
Claims and related expenses	16,210,314	13,946,067	27,458,360
Operating income (loss)	10,258,746	7,161,496	(11,250,479)
<b>Nonoperating revenues</b>			
Net increase in fair value of investments	11,540,467	5,692,809	19,334,109
Investment income (loss)	9,122,156	1,549,122	(22,551,377)
Interest expense on member funds held on deposit	(796,778)	(682,710)	(552,518)
Net investment income (loss)	19,865,845	6,559,221	(3,769,786)
Increase (decrease) in net assets	\$ 30,124,591	\$ 13,720,717	\$ (15,020,265)

In addition to net assets, when assessing the overall health of the Authority, the reader needs to consider other non-financial factors such as the legal climate in the State, the general state of the financial markets and the level of risk prevention undertaken by the Authority and its members.

The Authority cannot control the first two factors. However, since its inception, the Authority has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of municipal operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committee.

The advisory committees meet throughout the year to produce model policies and procedures and facilitate training in the areas of building and court security, law enforcement, parks and recreation, fire/EMS, telecommunications, employment and public works.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Condensed Comparative Financial Highlights**

***2004 Compared to 2003***

- Overall, the Authority's net assets increased by \$30.1 million (37.4%) from \$80.6 million to \$110.7 million.
- Total revenues increased by \$7.0 million (20.5%) from \$34.1 million to \$41.1 million.
- Risk management, underwriting and other administrative expenses increased by \$600,000 (7.4%) from \$8.5 million to \$9.1 million.
- Net contributions used to fund the risk carried by the Authority increased by \$5.4 million (25.4%) from \$21.1 million to \$26.5 million.
- Claim payments decreased by \$4.1 million (23.0%) from \$17.9 million to \$13.8 million
- Outside reinsurance costs increased by \$900,000 (6.2%) from \$13.2 million to \$14.1 million.
- Reserves (reported net of estimated reinsurance recoveries), both reported and incurred but not reported, increased by \$2.4 million.
- Investment income of \$19.9 million was earned this year compared to \$6.6 million in the prior year.

***2003 Compared to 2002***

- Overall, the Authority's net assets increased by \$13.7 million (20.5%) from \$66.9 million to \$80.6 million.
- Total revenues increased by \$8.8 million (34.8%) from \$25.3 million to \$34.1 million.
- Risk management, underwriting and other administrative expenses increased by \$600,000 (7.6%) from \$7.9 million to \$8.5 million.
- Net contributions used to fund the risk carried by the Authority increased by \$4.9 million (30.2%) from \$16.2 million to \$21.1 million.
- Claim payments increased by \$2.1 million (13.3%) from \$15.8 million to \$17.9 million
- Outside reinsurance costs increased by \$400,000 (3.1%) from \$12.8 million to \$13.2 million.

## Michigan Municipal Risk Management Authority

### Management's Discussion and Analysis (continued)

- Reserves (reported gross of estimated reinsurance recoveries), both reported and incurred but not reported, decreased by \$14.1 million.
- Investment income of \$6.6 million was earned this year compared to a loss of \$3.8 million in the prior year.

#### **Cash and Cash Equivalents and Investments**

Cash and cash equivalents and investments comprise the most significant numbers in the asset section of the Authority's statements of net assets.

Accordingly, the Board of Directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to insure that capital losses are minimized, whether caused by security defaults or decline in market value. The goal of the Authority is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account the Authority's investment risk constraints. The asset allocation plan and target is 25% to 60% invested in U.S. equities, 35% to 75% in fixed income, and 5% to 20% in cash and equivalents.

Investment guidelines for U.S. equities provide for investing in a broadly diversified portfolio of publicly held stocks, listed on U.S. stock exchanges. The manager may not invest in more than 5% of the outstanding securities of one issuer nor invest more than 5% of the portfolio in the outstanding securities of one issuer.

Investment guidelines for fixed income portfolios consist primarily of diversified U.S. dollar-denominated debt securities issued by the U.S. Government and its agencies and instrumentalities, other U.S.-domiciled issuers, and foreign issuers. Up to 35% of the portfolio may be invested (in the aggregate) in issues of mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities and asset-backed securities. Investment managers may not invest in more than 5% of the outstanding securities of one issue nor invest more than 5% of the portfolio's assets in the securities of one issuer, except for securities issued by the U.S. Government and its agencies and instrumentalities or foreign sovereign issuers (as permitted by the investment guidelines).

## Michigan Municipal Risk Management Authority

### Management's Discussion and Analysis (continued)

The portfolio's debt securities must have a minimum quality rating of B by Standard & Poors (S&P) or B2 by Moody's or above, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by the Investment Managers. The Investment Managers may allocate up to 20% of the total fixed income portfolio to issues with a credit rating below BBB- by S&P or Baa3 by Moody's (the High Yield Segment) no more than 0.5% of the entire fixed income portfolio in any one issuer of High Yield Segment securities. The Investment Managers may allocate up to 10% of the fixed income portfolio to issues denominated in currencies other than the U.S. dollar. The Investment Managers will invest no more than 5% of the foreign fixed income portfolio in any one foreign nonsovereign issuer and no more than 10% of the foreign fixed income portfolio in any one foreign sovereign issuer. The investment Managers shall be permitted to enter into currency forward contracts in order to hedge the portfolio's exposure to foreign currency.

The portfolio is expected to be fully invested at all times. However, the manager may raise cash if they deem it appropriate.

Investment guidelines for cash and cash equivalent portfolios are to follow the American Banking Association investment standards for security-type, quality, and maturity for short-term investment funds (STIF), with money market funds exempted.

Currently, all investments of the Authority are professionally managed in both passive index and active funds and held in trust by Comerica Bank.

A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by Statute.

#### **Reserves for Unpaid Claims**

The Authority's most significant numbers in the liability section of the statement of financial position are the reserves for reported and incurred but not reported claims and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (continued)

### Budgetary Highlights

The budget for the year ended June 30, 2004, was approved by the board of directors during their June 2003 meeting. There were no subsequent changes made to that budget.

	Budgeted	Actual	Variance Positive (Negative)
REVENUES			
Members	\$ 45,642,000	\$ 48,467,556	\$ 2,825,556
Affiliate	908,000	1,192,629	284,629
Investment Income	5,000,000	19,865,845	14,865,845
Total Revenues	51,550,000	69,526,030	17,976,030
EXPENDITURES			
Membership Services	15,378,000	14,497,767	880,233
Administration	1,787,575	1,886,235	(98,660)
Claims Services	1,730,380	1,520,814	209,566
Risk Management	5,051,650	4,796,922	254,728
Information Services	619,970	489,387	130,583
	24,567,575	23,191,125	1,376,450
CLAIMS PAID	18,000,000	13,830,482	4,169,518
EXCESS REVENUE	<u>\$ 8,982,425</u>	32,504,423	<u>\$ 23,521,998</u>
INCREASE IN RESERVES**		<u>(2,379,832)</u>	
EXCESS OF REVENUES OVER EXPENSES		<u>\$ 30,124,591</u>	

\*\*Not a budgeted item

Total resources actually received by the Authority exceeded budgeted amounts by \$18.0 million or 34.9%. Member and affiliate contributions were \$3.1 million over budget (6.7%) and the Authority experienced a \$19.9 million investment gain rather than the \$5.0 million that was budgeted, resulting in the overall increase.

## Michigan Municipal Risk Management Authority

### Management's Discussion and Analysis (continued)

Membership services expenditures were under the budgeted amount by \$880,000 or 5.7%. This was primarily due to lower actual reinsurance costs, which were not determined until after the budget was approved.

Administrative services were over budget by \$99,000 or 5.5%, primarily due to higher fees charged by investment fund managers due to an increase in the value of investments. Claims services were under budget by \$210,000 or 12.1%, primarily due to certain personnel positions not being filled for the entire year, as well as lower than expected expenditures for contracted services.

Risk management expenses were below budget by \$255,000, primarily due to less being paid to outside Regional Risk Managers since certain members are now serviced by in-house staff.

Information service expenses were under the budget by \$131,000, primarily due to less being spent on programming consultants, and software and computer purchases and maintenance.

Claims and legal expenses paid during the year were \$4.2 million or 23.2% under budget. The actual payment of claims depends on many factors and varies from year to year.

In total, the Authority had budgeted a net revenue over expense amount of \$9.0 million. However, due primarily to higher than budgeted investment income, lower than budgeted reinsurance and personnel costs, and a decrease in claims paid, partially offset by an increase in the actuarially determined incurred but not reported (IBNR) reserves, it experienced a \$30.1 million increase in net assets for the year.

#### Capital Assets

The Authority owns its office building located in Livonia, Michigan. It was built at a cost of \$1.8 million and is being depreciated on a straight-line basis over fifteen years. The State of Michigan requires that furniture and equipment be expensed when purchased. Computer equipment may be capitalized, however, any computer equipment would essentially be fully depreciated or would fall below the Authority's capitalization policy. Therefore, no furniture, general equipment or computer equipment is shown on the statements of net assets.

## Michigan Municipal Risk Management Authority

### Management's Discussion and Analysis (continued)

#### **Economic Factors and Next Year's Budget**

- The reinsurance industry continues to adjust to terrorism threats as well as to uncertain investment market conditions. While the Authority experienced recent significant increases in its reinsurance expenses, we believe the worst may be over and we expect rates to stabilize.
- Pending sewer back-up claims continue to pose an uncertainty.
- The Authority's investments will continue to be impacted by unpredictable market conditions.

#### **Contacting the Authority's Management**

This financial report is designed to provide our members, customers and the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Authority office at 14001 Merriman Road, Livonia, Michigan 48154. The telephone number is 734-513-0300.

# Michigan Municipal Risk Management Authority

## Statements of Net Assets

	June 30	
	2004	2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,425,482	\$ 22,627,583
Member contributions receivable	4,862,076	5,424,844
Reinsurance recoverable	2,579,734	3,612,959
Fixed maturities at fair value	50,274,934	-
Equity securities at fair value	126,774,129	148,608,299
Prepaid expenses and other current assets	1,700,162	1,363,932
Total current assets	220,616,517	181,637,617
Noncurrent assets:		
Office building, net of accumulated depreciation	512,664	630,972
Total assets	221,129,181	182,268,589
<b>Liabilities</b>		
Current liabilities:		
Reserve for claims and claim adjustment expenses reported	6,546,205	6,063,257
Reserve for claims and claim adjustment expenses incurred but not reported	20,653,264	21,252,740
Reinsurance premiums and casualty treaty adjustments payable	283,189	3,664,740
Accrued expenses	1,354,853	1,389,461
Other liabilities	9,286,883	1,171,804
Unearned contributions	11,232,169	11,545,663
Member funds held on deposit	14,191,234	12,220,491
Total current liabilities	63,547,797	57,308,156
Reserve for claims and claim adjustment expenses reported, net of current portion	11,272,379	10,440,756
Reserve for claims and claim adjustment expenses incurred but not reported, net of current portion	35,564,330	33,899,593
Total noncurrent liabilities	46,836,709	44,340,349
Total liabilities	110,384,506	101,648,505
<b>Net assets</b>		
Invested in capital assets	512,664	630,972
Net unrestricted assets	110,232,011	79,989,112
Net assets	\$ 110,744,675	\$ 80,620,084

See accompanying notes.



# Michigan Municipal Risk Management Authority

## Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30	
	2004	2003
<b>Operating revenues</b>		
Member contributions, gross of reinsurance	\$ 48,281,979	\$ 41,691,304
Member contributions, ceded	(14,069,985)	(13,247,813)
Member contributions, net	34,211,994	28,443,491
Electric Choice program revenue	5,654,505	4,688,026
Loss contributions from associated programs	1,192,629	988,183
Total revenues	41,059,128	34,119,700
<b>Operating expenses</b>		
Risk management, underwriting, and other expenses:		
Risk management and accounting expenses	3,860,969	3,676,909
Executive office, underwriting, claims and other expenses, net	5,260,171	4,812,119
Electric Choice program expenses	5,468,928	4,523,109
Total risk management, underwriting, and other expenses	14,590,068	13,012,137
Net contributions available for claims and related expenses	26,469,060	21,107,563
<b>Claims and related expenses</b>		
Claims and claim adjustment expenses paid,		
gross of subrogation and reinsurance recoveries	17,461,184	25,096,581
Reinsurance recoveries on claims and claims		
adjustment expenses	(3,630,702)	(7,146,354)
Increase (decrease) in net reserve for claims and		
claim adjustment expenses	1,314,570	(3,347,662)
Increase (decrease) in net reserve for claims and claim		
adjustment expenses incurred but not reported	1,065,262	(656,498)
Total claims and related expenses	16,210,314	13,946,067
Operating income	10,258,746	7,161,496
<b>Nonoperating revenues</b>		
Net increase in fair value of investments	11,540,467	5,692,809
Investment income	9,122,156	1,549,122
Interest expense on member funds held on deposit	(796,778)	(682,710)
Net investment income	19,865,845	6,559,221
Increase in net assets	30,124,591	13,720,717
Net assets, beginning of year	80,620,084	66,899,367
Net assets, end of year	\$ 110,744,675	\$ 80,620,084

See accompanying notes.

# Michigan Municipal Risk Management Authority

## Statements of Cash Flows

	Years ended June 30	
	2004	2003
<b>Cash flows from operating activities</b>		
Member contributions received	\$ 48,531,252	\$ 42,287,514
Paid to reinsurers	(16,069,891)	(14,331,334)
Electric Choice program revenues received	5,418,179	5,505,357
Electric Choice program expenses paid	(5,266,860)	(5,201,165)
Loss contributions from associated programs	1,192,629	988,183
Risk management and accounting expenses paid	(3,786,020)	(3,866,958)
Executive office, underwriting, claims, and other expenses paid	(3,310,507)	(3,878,073)
Claims and claims adjustment expenses paid	(13,830,482)	(17,950,227)
Net cash provided by operating activities	12,878,300	3,553,297
<b>Cash flows from noncapital financing activities</b>		
Member fund deposits received	16,453,688	14,699,018
Member fund claims and related payments	(15,279,723)	(15,100,164)
Interest paid on member funds held on deposit	(796,778)	(682,710)
Net cash provided by (used in) noncapital financing activities	377,187	(1,083,856)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	176,053,707	27,474,540
Purchases of investments	(186,899,187)	(24,536,559)
Investment income received	9,387,892	2,230,966
Net cash (used in) provided by investing activities	(1,457,588)	5,168,947
Net increase in cash and cash equivalents	11,797,899	7,638,388
Cash and cash equivalents at beginning of year	22,627,583	14,989,195
Cash and cash equivalents at end of year	\$ 34,425,482	\$ 22,627,583
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 10,258,746	\$ 7,161,496
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	118,308	118,307
Changes in assets and liabilities:		
Member contributions receivable	562,768	(1,373,132)
Reinsurance receivables	(309,419)	9,783,681
Prepaid expenses and other	444,607	(211,489)
Reserves for claims and claim adjustments expenses	3,722,476	(14,140,283)
Reinsurance premiums and casualty treaty adjustments payable	(3,381,551)	(774,990)
Accrued expenses	(34,608)	(151,440)
Other current liabilities	1,810,467	1,171,804
Unearned contributions	(313,494)	1,969,343
Net cash provided by operating activities	\$ 12,878,300	\$ 3,553,297

*See accompanying notes.*

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements

June 30, 2004

*(In Thousands)*

### 1. The Authority

The Michigan Municipal Risk Management Authority (the Authority) was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services for general and auto liability, motor vehicle physical damage, and property; purchase or otherwise provide for reinsurance, excess insurance or make other provisions for payment of losses and related expenses in excess of risk retained by the Authority; and provide claims, legal defense and related general administrative services to members. The Authority also insures several community mental health associations against spending in excess of their budget through the Authority's Risk Avoidance Program, which was established in October 1998. During 2001, the Authority established an Electric Choice Program, under which eligible Michigan local communities can purchase electric energy wholesale for their own use. On behalf of the communities, the Authority negotiates and enters into contracts to purchase electric energy for municipal purposes.

Any member may withdraw from the Authority at the end of any anniversary year by giving at least 90 days notice in writing of its desire to withdraw. Any member withdrawing from the Authority while having a positive balance in its funds held on deposit may withdraw such funds less projected allocated claims expenses. Any member withdrawing from the Authority having a negative balance in its funds held on deposit account shall repay the Authority such negative balance and claims expenses incurred. At the request of the withdrawing member, the Authority shall continue to service any pending claim and the member shall reimburse the Authority for claims expenses incurred. Coverage in excess of the Members' retention shall not be afforded a withdrawing member for claims not serviced by the Authority.

Pursuant to the Michigan Code, the Authority submits a detailed budgetary schedule of the administrative expenses to the State prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP).

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The Authority has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989, unless the GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.

The Authority distinguishes operating revenues and expenses from nonoperating. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues and expenses of the Authority relate to premium revenues and claims and administrative expenses. Premium contributions received covering future contract period are deferred and recognized over the related contract periods. Net investment earnings are reported as nonoperating revenues.

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - of State and Local Governments*. As a government agency, the Authority was required to adopt GASB Statement No. 34 in fiscal 2003. GASB Statement No. 34 required a change in format of the financial statements, including management's discussion and analysis of operations, which has been included with the financial statements.

#### Cash and Cash Equivalents

Cash and cash equivalents includes cash and all liquid securities with maturities of 90 days or less when purchased. All amounts on deposit are uncollateralized.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

The Authority is invested primarily in fixed maturity securities and mutual fund shares. Investments are stated at fair value in the statements of net assets. All investment income (loss), including changes in the fair value of investments, is recognized as revenue or expense in the statements of revenue, expenses, and changes in net assets. All investments are uninsured and unregistered with securities held with a trustee in the Authority's name.

#### Member Contributions

Member contributions related to amounts to be expended for reinsurance coverage, claim payments in excess of individual members' self-insured retentions (SIR), and certain general and administrative expenses, are recognized as revenue in the year to which they apply. Member loss contributions are determined in accordance with the terms of the Joint Exercise of Powers Agreement (JPA) and underwriting guidelines established by the Authority. The JPA is the primary governing document for the Authority.

Member contributions related to claims costs that fall within the members' self-insured retention are reflected as member funds held on deposit. Member contributions for this are determined in accordance with the terms of the Joint Powers Agreement. The Executive Director of the Authority may authorize distributions to individual members in the event that their funds held on deposit are determined to be sufficient to do so.

#### Unearned Contributions

Unearned contributions represent contributions invoiced during the year, which cover a period extending beyond the end of the fiscal year and, thus, remain unearned as of year-end.

#### Other Liabilities

Other current liabilities consist of outstanding checks and pending fixed maturity security purchases at June 30. The Authority generally maintains a zero balance cash account and has an arrangement with the bank for required funds to be transferred from its investment account when checks clear the bank.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Reserves for Claims and Claim Adjustment Expenses

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The Authority retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by the Authority.

Premium deficiency is defined as the amount by which expected claims costs (including IBNR), and all expected claims adjustment expenses exceed related unearned premiums. The Authority has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income.

#### Office Building

The office building is recorded at cost and is being depreciated on a straight-line basis over fifteen years. Accumulated depreciation at June 30, 2004 and 2003 is \$1,261,944 and \$1,143,637, respectively.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Federal Income Taxes

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows local governmental units to provide joint funding for risk management and self-insurance purposes, and as such, are not subject to Federal income tax under section 115 of the Internal Revenue Code of 1986.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassification

Certain amounts presented in the 2003 financial statements have been reclassified to the 2004 method of presentation.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 3. Member Funds Held on Deposit

This account consists of those economic resources of the members held by the Authority used for obligations of the members including loss payments and defense costs up to the members' self-insured retention (SIR) amount. In addition, economic resources in this account are used to pay certain other legal and meeting expenses of the members. It has been included in the accompanying financial statements as a liability for the amount received but not yet earned or expended on claims costs. The following is a summary of the change in member funds held on deposit during the years ended June 30:

	2004	2003
Member contributions	\$ 16,453,688	\$ 14,699,018
Claims and related costs:		
Member claims and claims adjustment costs paid, net of subrogation receipts	13,366,402	13,363,214
General legal fees	152,239	207,499
State assessments and direct meeting costs	1,554,370	1,020,606
Funds distributed to members	206,712	508,845
Total claims and related costs	15,279,723	15,100,164
Excess (deficiency) of member contributions before interest over claims and related costs	1,173,965	(401,146)
Interest on member funds	796,778	682,710
Excess of member contributions and interest over claims and related costs	1,970,743	281,564
Member funds held on deposit, beginning of year	12,220,491	11,938,927
Member funds held on deposit, end of year	\$ 14,191,234	\$ 12,220,491



# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 4. Loss Coverage

Loss coverage for general and auto liability and property is structured on a three layer basis with each member retaining a portion of its losses. The layers are divided into three levels of risk retention whereby the members, the Authority and the reinsurance carriers share the risk. Loss coverage for auto physical damage is shared between the members and the Authority.

#### Member Retention Level

A member's self-insured retention varies depending on the type of claim and the agreement entered into with the Authority. The table below displays the amount of risk retained by the member for general and auto liability, property, and auto physical damage.

#### Authority Retained Risk Program

This program consists of those economic resources of the Authority which have been restricted to pay losses incurred by members which exceed the members' (self insurance retention layer) SIR and are not covered under existing reinsurance agreements. During 2004 and 2003, the Authority agreed to retain certain levels of risk, rather than obtaining coverage through reinsurance agreements. The table below presents a summary of the amount of risk retained by the Authority for general and auto liability, property, and auto physical damage.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 4. Loss Coverage (continued)

#### Reinsurance Agreements

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority or the members. The table below displays the amount of risk retained by the reinsurer for general and auto liability, property, and auto physical damage.

Policy	Member SIR	Authority Coverage	Reinsurance
General and Auto Liability	\$50,000 to \$75,000 <sup>(1)</sup> per occurrence	Individual claims between members' SIR and \$1,000,000 and 15.0% of the next \$4,000,000 <sup>(2)</sup>	Individual claims in excess of the Authority's coverage up to \$15 million per occurrence <sup>(3)</sup>  Individual claims resulting from terrorism in excess of the Authority's coverage up to \$4 million over the life of the treaty
Property	\$1,000 deductible plus 10% up to \$100,000 per occurrence <sup>(6)</sup>	90% of the first \$100,000 after the deductible, plus 100% of the next \$400,000 per occurrence	Individual claims in excess of the Authority's coverage up to the predetermined maximum limits for each member <sup>(4)</sup>  Individual claims resulting from terrorism in excess of the Authority's coverage up to \$25 million over the life of the treaty.
Auto Physical Damage	\$15,000 per unit and \$30,000 <sup>(5)</sup> per occurrence	Individual claims up to \$1,500,000 after members' SIR	No reinsurance coverage

(1) certain members have higher retention levels and/or deductibles

(2) 27.5% until March 31, 2004 and 15.0% thereafter

(3) certain members have higher limits of liability per occurrence

(4) limit based on value of property being insured

(5) after a \$1,000 deductible

(6) some members have higher deductibles

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 4. Loss Coverage (continued)

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be paid by the Authority using funds contributed by members for this purpose.

The Authority has also retained some risk for an intergovernmental agency that is an affiliated entity, but not a member of the organization. As such, a portion of the activity recorded relates to this organization. Contributions paid by this organization for the coverage levels are shown as loss contributions from associated programs. The Authority is responsible for payment of unreimbursed claims due to insolvent reinsurers for this organization.

### Member Stop-Loss Program

In addition to the member coverage described above, the Authority provides optional stop-loss coverage to members to limit the aggregate losses paid by one member in any one year. The Authority has entered into an agreement with participating members whereby total paid losses in any one fiscal year, net of reinsurance recoveries, which are in excess of a predetermined entry point will be paid by the stop-loss program. Allocations to the stop-loss program are based on a percent of contributions.

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	Years ended June 30	
	2004	2003
Member contributions:		
Direct	\$ 48,281,979	\$ 41,691,304
Ceded	(14,069,985)	(13,247,813)
Total member contributions, net	<u>\$ 34,211,994</u>	<u>\$ 28,443,491</u>
Claims and claim adjustment expenses paid	\$ 17,461,184	\$ 25,096,581
Reinsurance recoveries	(3,630,702)	(7,146,354)
Total claims and claim adjustment expenses paid	<u>\$ 13,830,482</u>	<u>\$ 17,950,227</u>

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 5. Investments

The Authority's investments as of June 30, 2004 and 2003 consist primarily of fixed maturity securities and mutual fund shares and has included all realized and unrealized gains and losses in the statement of revenues, expenses and changes in net assets. The calculation of the net increase in the fair value of investments for the years ended June 30 is as follows:

	2004	2003
Fair value of investments at end of year	\$177,049,063	\$148,608,299
Cost of investments at end of year	162,102,651	145,202,354
Unrealized gains in investments at end of year	14,946,412	3,405,945
Prior year unrealized gains (losses) in investments at end of year	3,405,945	(2,286,864)
Change in fair value of investments	\$ 11,540,467	\$ 5,692,809

Calculation of realized gain (loss) is independent of a calculation of the net change in the fair value of investments and is as follows:

	Cost	Sales Price	Total Realized Gain (Loss)
Year ended June 30, 2004:			
Mutual funds - equity securities	\$ 9,057,282	\$ 11,000,000	\$ 1,942,718
Mutual funds - bonds	67,111,577	68,860,531	1,748,954
Total investments	\$ 76,168,859	\$ 79,860,531	\$ 3,691,672
Year ended June 30, 2003:			
Mutual funds - equity securities	\$ 21,207,528	\$ 17,516,940	\$ (3,690,588)
Mutual funds - bonds	6,267,012	6,800,000	532,988
Total investments	\$ 27,474,540	\$ 24,316,940	\$ (3,157,600)

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 5. Investments (continued)

Calculation of unrealized gain (loss) is as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
June 30, 2004:			
Government securities	\$ 4,986,615	\$ 4,986,615	\$ -
Mutual funds - equity securities	105,879,166	120,642,656	14,763,490
Fixed-maturity securities	50,092,012	50,274,934	182,922
Investment in government entity	1,144,858	1,144,858	-
Total investments	<u>\$ 162,102,651</u>	<u>\$ 177,049,063</u>	<u>\$ 14,946,412</u>
June 30, 2003:			
Government securities	\$ 4,973,750	\$ 4,973,750	\$ -
Mutual funds - equity securities	76,427,700	74,479,886	(1,947,814)
Mutual funds - bonds	63,300,904	68,654,663	5,353,759
Investment in government entity	500,000	500,000	-
Total investments	<u>\$ 145,202,354</u>	<u>\$ 148,608,299</u>	<u>\$ 3,405,945</u>

The level of risk changes when securities are not held by the Authority or registered in its name. At June 30, 2004 and 2003, all investments are held by a bank acting as a custodian.

At June 30, 2004 and 2003, a \$5,000,000 bond was held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by the Statute.

### 6. Reserves for Claim and Claim Adjustment Expenses

As discussed in Note 2, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of claims and claim adjustment expenses.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 6. Reserves for Claim and Claim Adjustment Expenses (continued)

The following represents changes in those aggregate liabilities for the Authority for the years ended June 30:

	<u>2004</u>	<u>2003</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year, net	\$ 71,656,346	\$ 75,660,506
Incurrd claims and claim adjustment expenses provision for insured events of the current fiscal year	27,541,988	27,065,959
Decrease in provision for insured events of prior fiscal years	<u>(11,331,674)</u>	<u>(13,119,892)</u>
Total incurred claims and claim adjustment expenses, net	16,210,314	13,946,067
Payments, net:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(1,352,545)	(2,886,170)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(12,477,937)</u>	<u>(15,064,057)</u>
Total payments, net	<u>(13,830,482)</u>	<u>(17,950,227)</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year, net	<u>\$ 74,036,178</u>	<u>\$ 71,656,346</u>

The foregoing indicates that a redundancy of approximately \$11,300,000 and \$13,100,000 in the 2003 and 2002 reserves emerged in 2004 and 2003, respectively. The redundancy was attributable to favorable claim settlements achieved through facilitation where several high profile claims were settled below the initial reserve estimates. The favorable reserve development that emerged in 2004 was primarily related to the 2000 through 2003 accident years. Included in the provision for insured events of prior fiscal years are expenses related to events that occurred in previous years, but does not require refunds of premiums to members.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 7. Employee Benefits

The Authority funds a 401(a) defined contribution plan (the Plan) which provides retirement benefits to its employees. Amounts contributed to the Plan by the Authority are based on 15% of the Executive Director's W-2 income and 12% of all other employees' W-2 income. An employee must be employed one year before becoming eligible. Contributions were approximately \$216,000 and \$203,000 in fiscal years 2004 and 2003, respectively.

Effective July 1, 1999, the Authority adopted a Post Employment Health Plan (PEHP), a defined contribution health plan, to fund employee health benefits after terminating employment. All employees that are eligible for the Plan, are also eligible for the PEHP. The PEHP is funded entirely by Authority contributions and is based on a formula which results in the same amount being contributed for each eligible employee. The employees have the ability to direct its portion of the funds into various investment options. The investment balances can be used by the terminating employee for eligible benefits under the program. After remitting the Authority's contribution for the employees, the Authority is not liable for any additional costs related to terminating employees. Upon commencement of the PEHP plan, the Authority funded an amount to recognize prior service costs. During fiscal years 2004 and 2003, the Authority contributed approximately \$49,000 and \$46,000, respectively.

The Authority also allows eligible employees the option of deferring compensation to future periods. The eligible employee can elect to have a portion of their salary remitted to the International City Managers Association for future withdrawal as compensation. The Authority does not maintain the deferred compensation funds, and does not defer this compensation cost. As such, included in the statements of revenues, expenses and changes in net assets is compensation expense earned by employees during the year, regardless of whether the employee receives funds for compensation or elects to defer a portion of their compensation through this program.

### 8. Litigation Matters

The Authority is involved in various litigation and legal matters, which are being defended and handled in the ordinary course of business. The costs of any claims ultimately paid to cover the Authority's portion of a legal obligation, with respect to these matters constitute expenses to the Authority. In the opinion of the Authority's management and legal counsel, the ultimate resolution of these various litigation issues will not have a material effect on the Authority and its members.

# Michigan Municipal Risk Management Authority

## Supplemental Claims Development Information Schedule (Unaudited) (continued)

(In Thousands of Dollars)

The table below illustrates how the Authority's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's premium revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Authority including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows the Authority's incurred claims and claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of losses assumed by reinsurer for each year. (6) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares to the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
1) Premiums and investment revenues:											
Earned											
Ceded	\$ 57,799,986	\$ 43,545,899	\$ 13,694,683	\$ 39,151,457	\$ 53,398,313	\$ 45,905,155	\$ 45,337,083	\$ 36,597,113	\$ 38,379,205	\$ 31,121,013	\$ 29,811,901
Net earned	14,069,985	13,247,813	12,751,916	7,673,013	7,623,509	6,311,948	5,109,520	5,771,614	6,517,107	7,980,251	9,797,573
2) Unallocated expenses	43,730,001	30,298,086	942,767	31,478,444	45,774,804	39,593,207	40,227,563	30,825,499	31,862,098	23,140,762	20,014,328
3) Estimated incurred claims and expenses, end of policy year:	9,121,140	8,489,028	7,875,954	7,742,554	7,258,409	6,700,960	6,379,930	5,550,003	5,111,352	5,114,005	5,339,062
Incurred											
Ceded	30,169	34,113	28,080	45,115	23,060	27,828	23,498	21,195	20,017	23,536	16,848
Net incurred	2,627	7,047	1,127	19,978	102	143	2,500	152	-	-	\$
4) Cumulative paid as of:	27,542	27,066	26,953	25,137	22,958	27,685	20,998	21,043	20,017	23,536	16,843
End of policy year											
One year later	1,352	2,886	1,721	3,593	1,297	2,833	1,230	1,328	823	735	462
Two years later	-	5,040	4,342	5,965	3,285	4,514	3,236	3,637	3,217	2,356	2,403
Three years later	-	-	6,188	8,595	7,452	7,185	7,250	8,433	6,912	4,954	5,335
Four years later	-	-	-	10,875	12,117	8,784	12,213	10,573	6,877	6,867	6,934
Five years later	-	-	-	-	14,339	10,461	13,781	12,898	9,420	8,311	8,244
Six years later	-	-	-	-	-	11,516	14,486	15,079	9,702	8,383	9,972
Seven years later	-	-	-	-	-	-	15,286	16,177	10,607	8,855	10,067
Eight years later	-	-	-	-	-	-	-	16,243	11,335	8,907	10,142
Nine years later	-	-	-	-	-	-	-	-	11,335	8,925	10,142
5) Re-estimated ceded claims and expenses											
6) Re-estimated incurred claims and expenses (undiscounted):											
End of policy year	27,542	27,066	26,953	25,137	22,958	27,685	20,998	21,043	20,017	23,536	16,843
One year later	-	25,489	23,691	28,572	20,213	23,770	22,244	20,063	19,743	16,292	18,012
Two years later	-	-	18,160	23,867	20,783	16,632	19,407	18,482	14,896	14,351	11,998
Three years later	-	-	-	17,678	18,498	15,687	18,779	17,492	13,482	11,490	12,183
Four years later	-	-	-	-	18,710	12,612	16,361	18,618	12,267	10,200	11,613
Five years later	-	-	-	-	-	12,890	16,351	18,089	11,508	9,413	11,598
Six years later	-	-	-	-	-	-	16,770	17,903	11,290	9,586	11,462
Seven years later	-	-	-	-	-	-	-	17,424	11,697	9,308	10,933
Eight years later	-	-	-	-	-	-	-	-	11,335	9,195	10,865
Nine years later	-	-	-	-	-	-	-	-	-	9,111	10,791
7) Decrease in estimated incurred claims expense from end of policy year	\$ -	\$ (1,577)	\$ (8,793)	\$ (7,459)	\$ (4,248)	\$ (14,795)	\$ (4,228)	\$ (3,619)	\$ (8,682)	\$ (14,425)	\$ (6,052)



# Michigan Municipal Risk Management Authority

## Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (Unaudited)

The table below presents the changes in unpaid claims and claims adjustment expense liability for the Authority's lines of business.

	Fiscal and Policy Years ended June 30							
	2004				2003			
	Liability	Property	Auto Physical Damage	Total	Liability	Property	Auto Physical Damage	Total
	<i>(In Thousands of Dollars)</i>							
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	\$ 69,948	\$ 1,162	\$ 546	\$ 71,656	\$ 74,176	\$ 1,413	\$ 71	\$ 75,660
Incurred claims and claims adjustment expenses:								
Provision for insured events of the current fiscal year	25,226	2,174	142	27,542	23,386	3,016	664	27,066
Decrease in provision for insured events of prior fiscal years	(11,055)	(82)	(195)	(11,332)	(12,621)	(463)	(36)	(13,120)
Total incurred claims and claims adjustment expenses	14,171	2,092	(53)	16,210	10,765	2,553	628	13,946
Payments:								
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(299)	(980)	(73)	(1,352)	(801)	(1,968)	(117)	(2,886)
Claims and claims adjustment expense attributable to insured events of prior fiscal years	(11,233)	(902)	(343)	(12,478)	(14,192)	(837)	(35)	(15,064)
Total claims and claims adjustment expense payments	(11,532)	(1,882)	(416)	(13,830)	(14,993)	(2,805)	(152)	(17,950)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	\$ 72,587	\$ 1,372	\$ 77	\$ 74,036	\$ 69,948	\$ 1,161	\$ 547	\$ 71,656

**SECTION III**  
**SUPPORTING FINANCIAL DATA**

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
**COMPOSITION OF INVESTMENTS AS OF JUNE 30, 2004**

	<b>CARRYING VALUE</b>	<b>MARKET VALUE</b>
Government Securities	4,986,615	4,986,615
Mutual Funds- Equity Securities	105,879,166	120,642,656
Fixed - Maturity Securities	50,092,012	50,274,934
Investment in Government Entities	<u>1,144,858</u>	<u>1,144,858</u>
<b>Total Investments</b>	<u><b>\$162,102,651</b></u>	<u><b>\$177,049,063</b></u>

The Board of Directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to insure that capital losses are minimized whether caused by security defaults or decline in market value. The goal of the MMRMA is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account, MMRMA's investment risk constraints. The asset allocation plan and target is 25% to 60% invested in U.S. equities, 35% to 75% in fixed income and 5% to 20% in cash and cash equivalents.

For additional information on the types of equity and fixed income securities that are permitted, please refer to the management discussion and analysis letter included in with the audited financial statements.

Currently, all investments of MMRMA are held in trust by Comerica Bank. The equity investments are professionally managed in passive index funds. The fixed income investments are actively managed.

A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

In Fiscal Year 2003, MMRMA joined with ten other public entity pools from across the nation to form the Government Entities Mutual, Inc. (GEM). GEM is a new association captive insurance company domiciled in the District of Columbia. It is a non-profit organization incorporated in D.C. GEM has filed for a Section 115 Internal Revenue Service ruling that exempts its income from federal taxation. GEM's corporate form is a mutual insurance company. It is licensed to write reinsurance coverage. The purpose of GEM is to provide a long-term stable source of reinsurance for public entity pools. It is owned and controlled by its membership.

GEM is capitalized through surplus contributions from its members. As a founding member of GEM, MMRMA has made capital contributions of \$1,144,858. MMRMA also holds a seat on the GEM Board of Directors. The terms and conditions of membership are set-forth in the GEM Bylaws. MMRMA plans to use GEM as a components of its reinsurance program in future years.

# MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

## REINSURANCE RECEIVABLE ANALYSIS

AS OF JUNE 30, 2004

TREATY YEAR	TOTAL BILLED	RECEIVED AS OF JUNE 30, 2004	RECEIVABLE AS OF JUNE 30, 2004
1994 and prior	\$ 101,820,450	\$ 101,820,450	\$ -----
1995	5,109,111	5,109,111	-----
1996	4,769,216	4,769,216	-----
1997	10,641,236	10,641,236	-----
1998	8,713,893	8,713,893	-----
1999	1,088,387	639,706	448,681
2000	1,797,239	1,797,104	135
2001	628,606	-----	628,606
2002	80,076	-----	80,076
2003	2,882,988	1,460,752	1,422,236
2004	-----	-----	-----
<b>TOTALS</b>	<b><u>\$137,531,202</u></b>	<b><u>\$134,951,468</u></b>	<b><u>\$2,579,734</u></b>

Note: The audited Statement of Financial Position as of June 30, 2004 shows a reinsurance receivable of \$2,579,734. Of that amount, \$464,323 has been submitted to reinsurers for recovery of claim payments and is represented in the aging schedule below.

<u>Aging</u>	
0 - 90 days	\$448,561
91 - 180 days	0
181 - 181 days and over	<u>15,762</u>
	<u>\$464,323</u>

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**

**AGING OF REINSURANCE RECOVERABLE  
ON  
FINALIZED AND SUBMITTED LOSSES**

**AS OF JUNE 30, 2004**

NAME OF REINSURER	LOCATION	DAYS OVERDUE	
		0-90	181+ Days
GE RE	Illinois	148,025	----
Hartford Fire Ins. Co.	Connecticut	71,770	----
Berkley Ins. Co.	Delaware	71,770	----
Continental Casualty	Illinois	67,284	----
Folksamerica Re	New York	67,284	15,627
SCOR Reinsurance Co.	New York	22,428	----
Westchester Fire	New York	----	135
<b>TOTALS</b>		<b><u>\$448,561</u></b>	<b><u>\$15,762</u></b>

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
CEDED REINSURANCE AS OF JUNE 30, 2004**

Reinsurer's NAIC Number or AAIN Number	Name of Reinsurer	Location or Domicile (U.S.)	Reinsurance Recoverable On Paid Losses	Reinsurance Recoverable On Reported & IBNR Undiscounted
AA-3190002	Ace Bermuda Insurance Ltd.	Bermuda	1,422,236	41,470
24767	St. Paul Fire & Marine Insurance Co.	Minnesota	7,607	3,500,351
24902	Security Insurance Co. of Hartford	Connecticut	0	3,050
20443	Continental Casualty Company	Illinois	159,249	1,847,949
20699	ACE Property & Casualty	Pennsylvania	0	3,175,809
AA-3190770	ACE Tempest Reins. Co. Ltd	Bermuda	20,019	281,101
39675	PMA Capital Insurance Company	Pennsylvania	7,607	1,378,907
38636	Partner Reins Co. of the U.S.	New York	5,605	789,674
34894	Trenwick America Reins Corp.	Connecticut	8,008	113,505
23043	Liberty Mutual Ins. Co.	Massachusetts	0	686,862
AA-1121300	SCOR (UK) Company, Ltd.	United Kingdom	0	193,229
22969	GE Reinsurance Company	Illinois	418,356	6,874,120
30058	SCOR Reinsurance Company	New York	53,083	6,446,659
29700	North American Elite Ins. Co.	New Hampshire	0	1,046





MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Paid Losses: All Funds

Accident Year	Evaluation (as of) Date:											
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04		
1995 & prior												
1996	\$53,288,042	\$61,992,190	\$68,583,130	\$73,286,287	\$77,356,726	\$78,355,779	\$78,882,480	\$78,958,211	\$79,573,841	\$79,603,902		
1997		\$823,296	\$3,217,238	\$6,911,755	\$8,477,020	\$9,419,727	\$9,701,554	\$10,607,217	\$11,334,889	\$11,335,161		
1998			\$1,328,335	\$3,636,670	\$8,433,373	\$10,572,907	\$12,897,618	\$15,078,573	\$16,177,320	\$16,243,102		
1999				\$1,229,903	\$3,236,290	\$7,249,582	\$12,213,010	\$13,780,681	\$14,487,070	\$15,287,134		
2000					\$2,832,574	\$4,514,232	\$7,184,891	\$8,784,285	\$10,461,414	\$11,515,509		
2001						\$1,296,666	\$3,284,861	\$7,451,550	\$12,117,426	\$14,339,013		
2002							\$3,593,303	\$5,965,107	\$8,594,641	\$10,875,026		
2003								\$1,720,525	\$4,342,117	\$6,188,464		
2004								\$2,886,169		\$5,039,849		
Unalloc.LAE	\$4,086,372	\$4,091,991	\$4,124,355	\$5,124,355	\$5,124,640	\$5,179,743	\$5,324,983	\$5,894,190	\$5,707,631	\$7,475,394		
Total	\$57,374,414	\$66,907,477	\$77,253,058	\$90,188,970	\$105,460,623	\$116,588,636	\$133,082,700	\$148,240,340	\$165,682,518	\$179,255,099		

Accident Year	Loss Payments During:											
	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Total	
1995 & prior												
1996	\$53,288,042	\$8,704,148	\$6,590,940	\$4,703,157	\$4,070,439	\$999,053	\$526,701	\$75,731	\$615,630	\$30,061	\$79,603,902	
1997		\$823,296	\$2,393,942	\$3,694,517	\$1,565,265	\$942,707	\$281,827	\$905,663	\$727,672	\$272	\$11,335,161	
1998			\$1,328,335	\$2,308,335	\$4,796,703	\$2,139,534	\$2,324,711	\$2,180,955	\$1,098,747	\$65,782	\$16,243,102	
1999				\$1,229,903	\$2,006,387	\$4,013,292	\$4,963,428	\$1,567,672	\$706,389	\$800,064	\$15,287,134	
2000					\$2,832,574	\$1,681,658	\$2,670,659	\$1,599,394	\$1,677,129	\$1,054,095	\$11,515,509	
2001						\$1,296,666	\$1,988,195	\$4,166,689	\$4,665,876	\$2,221,587	\$14,339,013	
2002							\$3,593,303	\$2,371,804	\$2,629,534	\$2,280,385	\$10,875,026	
2003								\$1,720,525	\$2,621,592	\$1,846,347	\$6,188,464	
2004									\$2,886,169	\$2,153,680	\$5,039,849	
Unalloc.LAE	\$4,086,372	\$5,619	\$32,364	\$1,000,000	\$285	\$55,103	\$145,240	\$569,207	(\$186,559)	\$1,767,763	\$7,475,394	
Total	\$57,374,414	\$9,533,063	\$10,345,581	\$12,935,912	\$15,271,653	\$11,128,013	\$16,494,064	\$15,157,640	\$17,442,179	\$13,572,581	\$179,255,099	

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Case Reserves: All Funds

Accident Year	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$11,464,892	\$9,057,551	\$6,430,753	\$5,591,391	\$2,828,592	\$3,057,239	\$1,313,962	\$1,001,834	\$271,808	\$169,506
1996		\$1,696,195	\$3,590,069	\$1,584,944	\$2,437,145	\$1,383,827	\$1,095,798	\$471,509	\$216,668	\$0
1997			\$2,513,129	\$3,338,218	\$3,805,433	\$3,870,223	\$3,875,654	\$2,186,998	\$1,260,730	\$878,807
1998				\$2,395,448	\$6,449,256	\$5,645,241	\$2,894,910	\$1,139,380	\$1,229,151	\$1,037,581
1999					\$1,015,202	\$2,600,967	\$2,367,687	\$3,736,978	\$1,246,221	\$933,185
2000						\$1,126,627	\$3,628,456	\$4,883,273	\$2,645,636	\$2,559,583
2001							\$4,401,804	\$5,084,771	\$5,812,157	\$2,428,598
2002								\$1,346,932	\$1,782,919	\$2,336,172
2003									\$2,038,722	\$4,941,765
2004										\$2,533,387
Total	\$11,464,892	\$10,753,746	\$12,533,951	\$12,910,001	\$16,535,628	\$17,684,124	\$19,578,271	\$19,851,675	\$16,504,012	\$17,818,584

Change in Case Reserves During:

Accident Year	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Total
1995 & prior	\$11,464,892	(\$2,407,341)	(\$2,626,798)	(\$839,362)	(\$2,762,799)	\$228,647	(\$1,743,277)	(\$312,128)	(\$730,026)	(\$102,302)	\$169,506
1996		\$1,696,195	\$1,893,874	(\$2,005,125)	\$852,201	(\$1,053,318)	(\$288,029)	(\$624,289)	(\$254,841)	(\$216,668)	\$0
1997			\$2,513,129	\$825,089	\$467,215	\$64,790	\$5,431	(\$1,688,656)	(\$926,268)	(\$381,923)	\$878,807
1998				\$2,395,448	\$4,053,808	(\$804,015)	(\$2,750,331)	(\$1,755,530)	\$89,771	(\$191,570)	\$1,037,581
1999					\$1,015,202	\$1,585,765	(\$233,280)	\$1,369,291	(\$2,490,757)	(\$313,036)	\$933,185
2000						\$1,126,627	\$2,501,829	\$1,254,817	(\$2,237,637)	(\$86,053)	\$2,559,583
2001							\$4,401,804	\$682,967	\$727,386	(\$3,383,559)	\$2,428,598
2002								\$1,346,932	\$435,987	\$553,253	\$2,336,172
2003									\$2,038,722	\$2,903,043	\$4,941,765
2004										\$2,533,387	\$2,533,387
Total	\$11,464,892	(\$711,146)	\$1,780,205	\$376,050	\$3,625,627	\$1,148,496	\$1,894,147	\$273,404	(\$3,347,663)	\$1,314,572	\$17,818,584

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Reported Losses (Paid Losses Plus Case Reserves): All Funds

Accident Year	Evaluation (as of) Date:											
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04		
1995 & prior	\$64,752,934	\$71,049,741	\$75,013,883	\$78,877,678	\$80,185,318	\$81,413,018	\$80,196,442	\$79,960,045	\$79,845,649	\$79,773,408		
1996		\$2,519,491	\$6,807,307	\$8,496,699	\$10,914,165	\$10,803,554	\$10,797,352	\$11,078,726	\$11,551,557	\$11,335,161		
1997			\$3,841,464	\$6,974,888	\$12,238,806	\$14,443,130	\$16,773,272	\$17,265,571	\$17,438,050	\$17,121,909		
1998				\$3,625,351	\$9,685,546	\$12,894,823	\$15,107,920	\$14,920,061	\$15,716,221	\$16,324,715		
1999					\$3,847,776	\$7,115,199	\$9,552,578	\$12,521,263	\$11,707,635	\$12,448,694		
2000						\$2,423,293	\$6,913,317	\$12,334,823	\$14,763,062	\$16,898,596		
2001							\$7,995,107	\$11,049,878	\$14,406,798	\$13,303,624		
2002								\$3,067,457	\$6,125,036	\$8,524,636		
2003									\$4,924,891	\$9,981,614		
2004										\$3,885,932		
Unallocated LAE	\$4,086,372	\$4,091,991	\$4,124,355	\$5,124,355	\$5,124,640	\$5,179,743	\$5,324,983	\$5,894,190	\$5,707,631	\$7,475,394		
Total	\$68,839,306	\$77,661,223	\$89,787,009	\$103,098,971	\$121,996,251	\$134,272,760	\$152,660,971	\$168,092,015	\$182,186,530	\$197,073,683		

Incremental Losses Reported During:

Accident Year	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Total
1995 & prior	\$64,752,934	\$6,296,807	\$3,964,142	\$3,863,795	\$1,307,640	\$1,227,700	(\$1,216,576)	(\$236,397)	(\$114,396)	(\$72,241)	\$79,773,408
1996		\$2,519,491	\$4,287,816	\$1,689,392	\$2,417,466	(\$110,611)	(\$6,202)	\$281,374	\$472,831	(\$216,396)	\$11,335,161
1997			\$3,841,464	\$3,133,424	\$5,263,918	\$2,204,324	\$2,330,142	\$492,299	\$172,479	(\$316,141)	\$17,121,909
1998				\$3,625,351	\$6,060,195	\$3,209,277	\$2,213,097	(\$187,858)	\$796,160	\$608,494	\$16,324,715
1999					\$3,847,776	\$3,267,423	\$2,437,379	\$2,968,685	(\$813,628)	\$741,059	\$12,448,694
2000						\$2,423,293	\$4,490,024	\$5,421,506	\$2,428,239	\$2,135,534	\$16,898,596
2001							\$7,995,107	\$3,054,771	\$3,356,920	(\$1,103,174)	\$13,303,624
2002							\$0	\$3,067,457	\$3,057,579	\$2,399,600	\$8,524,636
2003									\$4,924,891	\$5,056,723	\$9,981,614
2004										\$3,885,932	\$3,885,932
Unallocated LAE	\$4,086,372	\$5,619	\$32,364	\$1,000,000	\$285	\$55,103	\$145,240	\$569,207	(\$186,559)	\$1,767,763	\$7,475,394
Total	\$68,839,306	\$8,821,917	\$12,125,786	\$13,311,962	\$18,897,280	\$12,276,509	\$18,388,211	\$15,431,044	\$14,094,516	\$14,887,153	\$197,073,683

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development through June 30, 2004  
Closed Claim Counts: All Funds

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995	1,343									
1996		2,245	2,539	2,764	2,872	2,923	2,938	2,955	2,959	2,965
1997		1,476	2,521	2,822	2,990	3,105	3,156	3,211	3,224	3,234
1998			1,554	2,629	2,904	3,072	3,179	3,240	3,259	3,271
1999				1,390	2,326	2,572	2,745	2,874	2,918	2,986
2000					1,672	2,693	2,933	3,124	3,198	3,291
2001						1,381	2,360	2,627	2,782	2,903
2002							1,874	3,145	3,382	3,576
2003								1,805	2,706	2,920
2004									1,823	2,933
									1,614	
Total	1,343	3,721	6,614	9,605	12,764	15,746	19,185	22,981	26,251	29,693

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development ending June 30, 2004  
Reported Claim Counts: All Funds

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995	2,552									
1996		3,144	3,270	3,336	3,347	3,348	3,351	3,354	2,968	2,969
1997		2,293	2,820	2,913	2,950	2,957	2,963	2,967	3,255	3,258
1998			2,474	3,028	3,172	3,214	3,244	3,250	3,290	3,290
1999				2,660	3,114	3,236	3,278	3,285	2,980	3,011
2000					2,341	2,759	2,899	2,965	3,298	3,368
2001						2,650	3,093	3,234	2,940	2,976
2002							2,306	2,772	3,667	3,746
2003								3,112	3,001	3,135
2004									2,816	3,200
										2,695
Total	2,552	5,437	8,564	11,937	14,924	18,164	21,134	24,939	28,215	31,648

# MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

Loss Development through June 30, 2004

Paid Losses: Auto and General Liability

Evaluation (as of) Date:

Accident Year	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$46,223,480	\$54,626,615	\$61,202,831	\$65,919,220	\$69,994,853	\$71,003,446	\$71,533,612	\$71,612,799	\$72,234,292	\$72,269,832
1996		\$0	\$1,456,771	\$5,221,890	\$6,787,155	\$7,729,862	\$7,950,812	\$8,856,475	\$9,584,147	\$9,584,419
1997			\$159,196	\$2,118,255	\$6,658,173	\$8,797,707	\$11,182,189	\$13,363,144	\$14,461,891	\$14,527,673
1998				\$187,433	\$1,007,301	\$4,981,711	\$9,951,298	\$11,518,174	\$12,224,563	\$13,024,627
1999					\$1,077,850	\$1,910,475	\$4,354,055	\$5,953,209	\$7,630,338	\$8,684,433
2000						\$651,602	\$1,549,419	\$5,618,248	\$10,271,625	\$12,494,450
2001							\$2,275,663	\$3,911,632	\$6,532,569	\$8,813,544
2002								\$1,073,077	\$2,838,737	\$4,644,053
2003									\$801,679	\$1,744,372
2004										\$300,183
Unalloc LAE	\$4,086,372	\$4,091,991	\$4,124,355	\$5,124,355	\$5,124,640	\$5,179,743	\$5,324,983	\$5,894,190	\$5,707,631	\$7,475,394
Total	\$50,309,852	\$58,718,606	\$66,943,153	\$78,571,153	\$90,649,972	\$100,254,546	\$114,122,031	\$127,800,948	\$142,287,471	\$153,562,979

Loss Payments During:

Accident Year	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Total
1995 & prior	\$46,223,480	\$8,403,135	\$6,576,216	\$4,716,389	\$4,075,633	\$1,008,593	\$530,166	\$79,187	\$621,493	\$35,540	\$72,269,832
1996		\$0	\$1,456,771	\$3,765,119	\$1,565,265	\$942,707	\$220,950	\$905,663	\$727,672	\$272	\$9,584,419
1997			\$159,196	\$1,959,059	\$4,539,918	\$2,139,534	\$2,384,482	\$2,180,955	\$1,098,747	\$65,782	\$14,527,673
1998				\$187,433	\$819,868	\$3,974,410	\$4,969,587	\$1,566,876	\$706,389	\$800,064	\$13,024,627
1999					\$1,077,850	\$832,625	\$2,443,580	\$1,599,154	\$1,677,129	\$1,054,095	\$8,684,433
2000						\$651,602	\$897,817	\$4,068,829	\$4,653,377	\$2,222,825	\$12,494,450
2001							\$2,275,663	\$1,635,969	\$2,620,937	\$2,280,975	\$8,813,544
2002								\$1,073,077	\$1,765,660	\$1,805,316	\$4,644,053
2003									\$801,679	\$942,693	\$1,744,372
2004										\$300,183	\$300,183
Unalloc LAE	\$4,086,372	\$5,619	\$32,364	\$1,000,000	\$285	\$55,103	\$145,240	\$569,207	(\$186,559)	\$1,767,763	\$7,475,394
Total	\$50,309,852	\$8,408,754	\$8,224,547	\$11,628,000	\$12,078,819	\$9,604,574	\$13,867,485	\$13,678,916	\$14,486,524	\$11,275,508	\$153,562,979

Exhibit III-D

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MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Case Reserves: Auto and General Liability

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$11,153,700	\$8,992,613	\$6,398,639	\$5,587,791	\$2,824,992	\$3,053,639	\$1,310,362	\$1,001,834	\$271,808	\$169,506
1996		\$942,500	\$3,558,392	\$1,584,944	\$2,437,145	\$1,322,950	\$1,095,798	\$471,509	\$216,668	\$0
1997			\$1,936,139	\$2,956,920	\$3,801,433	\$3,868,223	\$3,874,654	\$2,186,998	\$1,260,730	\$878,807
1998				\$1,768,770	\$6,407,670	\$5,636,168	\$2,894,700	\$1,139,380	\$1,229,151	\$1,037,581
1999					\$394,329	\$2,379,291	\$2,367,642	\$3,736,978	\$1,246,221	\$933,185
2000						\$282,614	\$3,555,197	\$4,873,495	\$2,645,636	\$2,559,583
2001							\$3,868,578	\$5,059,031	\$5,799,557	\$2,415,998
2002								\$318,600	\$1,701,576	\$2,318,791
2003								\$889,103	\$4,831,945	\$2,040,821
2004										
Total	\$11,153,700	\$9,935,113	\$11,893,170	\$11,898,425	\$15,865,569	\$16,542,885	\$18,966,931	\$18,787,826	\$15,260,450	\$17,186,217

Change in Case Reserves During:

Accident Year	Change in Case Reserves During:										Total
	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	
1995 & prior	\$11,153,700	(\$2,161,087)	(\$2,593,974)	(\$810,848)	(\$2,762,799)	\$228,647	(\$1,743,277)	(\$308,528)	(\$730,026)	(\$102,302)	\$169,506
1996		\$942,500	\$2,615,892	(\$1,973,448)	\$852,201	(\$1,114,195)	(\$227,152)	(\$624,289)	(\$254,841)	(\$216,668)	\$0
1997			\$1,936,139	\$1,020,781	\$844,513	\$66,790	\$6,431	(\$1,687,656)	(\$926,268)	(\$381,923)	\$878,807
1998				\$1,768,770	\$4,638,900	(\$771,502)	(\$2,741,468)	(\$1,755,320)	\$89,771	(\$191,570)	\$1,037,581
1999					\$394,329	\$1,984,962	(\$11,649)	\$1,369,336	(\$2,490,757)	(\$313,036)	\$933,185
2000						\$282,614	\$3,272,583	\$1,318,298	(\$2,227,859)	(\$86,053)	\$2,559,583
2001							\$3,868,578	\$1,190,453	\$740,526	(\$3,383,559)	\$2,415,998
2002								\$318,600	\$1,382,976	\$617,215	\$2,318,791
2003									\$889,103	\$3,942,842	\$4,831,945
2004										\$2,040,821	\$2,040,821
Total	\$11,153,700	(\$1,218,587)	\$1,958,057	\$5,255	\$3,967,144	\$677,316	\$2,424,046	(\$179,105)	(\$3,527,376)	\$1,925,767	\$17,186,217

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Reported Losses (Paid Losses Plus Case Reserves): Auto and General Liability

Accident Year	Evaluation (as of) Date:											
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04		
1995 & prior	\$57,377,180	\$63,619,228	\$67,601,470	\$71,507,011	\$72,819,845	\$74,057,085	\$72,843,974	\$72,614,633	\$72,506,100	\$72,439,338		
1996		\$942,500	\$5,015,163	\$6,806,834	\$9,224,300	\$9,052,812	\$9,046,610	\$9,327,984	\$9,800,815	\$9,584,419		
1997			\$2,095,335	\$5,075,175	\$10,459,606	\$12,665,930	\$15,056,843	\$15,550,142	\$15,722,621	\$15,406,480		
1998				\$1,956,203	\$7,414,971	\$10,617,879	\$12,845,998	\$12,657,554	\$13,453,714	\$14,062,208		
1999					\$1,472,179	\$4,289,766	\$6,721,697	\$9,690,187	\$8,876,559	\$9,617,618		
2000						\$934,216	\$5,104,616	\$10,491,743	\$12,917,261	\$15,054,033		
2001							\$6,144,241	\$8,970,663	\$12,332,126	\$11,229,542		
2002								\$1,391,677	\$4,540,313	\$6,962,844		
2003									\$1,690,782	\$6,576,317		
2004									\$5,707,631	\$2,341,004		
Unallocated LAE	\$4,086,372	\$4,091,991	\$4,124,355	\$5,124,355	\$5,124,640	\$5,179,743	\$5,324,983	\$5,894,190	\$5,707,631	\$7,475,394		
Total	\$61,463,552	\$68,653,719	\$78,836,323	\$90,469,578	\$106,515,541	\$116,797,431	\$133,088,962	\$146,588,774	\$157,547,921	\$170,749,197		

Incremental Losses Reported During:

Accident Year	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Total
1995 & prior	\$57,377,180	\$6,242,048	\$3,982,242	\$3,905,541	\$1,312,834	\$1,237,240	(\$1,213,111)	(\$229,341)	(\$108,533)	(\$66,762)	\$72,439,338
1996		\$942,500	\$4,072,663	\$1,791,671	\$2,417,466	(\$171,488)	(\$6,202)	\$281,374	\$472,831	(\$216,396)	\$9,584,419
1997			\$2,095,335	\$2,979,840	\$5,384,431	\$2,206,324	\$2,390,913	\$493,299	\$172,479	(\$316,141)	\$15,406,480
1998				\$1,956,203	\$5,458,768	\$3,202,908	\$2,228,119	(\$188,444)	\$796,160	\$608,494	\$14,062,208
1999					\$1,472,179	\$2,817,587	\$2,431,931	\$2,968,490	(\$813,628)	\$741,059	\$9,617,618
2000						\$934,216	\$4,170,400	\$5,387,127	\$2,425,518	\$2,136,772	\$15,054,033
2001							\$6,144,241	\$2,826,422	\$3,361,463	(\$1,102,584)	\$11,229,542
2002								\$1,391,677	\$3,148,636	\$2,422,531	\$6,962,844
2003									\$1,690,782	\$4,885,535	\$6,576,317
2004									(\$186,559)	\$2,341,004	\$2,341,004
Unalloc LAE	\$4,086,372	\$5,619	\$32,364	\$1,000,000	\$285	\$55,103	\$145,240	\$569,207		\$1,767,763	\$7,475,394
Total	\$61,463,552	\$7,190,167	\$10,182,604	\$11,633,255	\$16,045,963	\$10,281,890	\$16,291,531	\$13,499,811	\$10,959,148	\$13,201,275	\$170,749,196



MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development ending June 30, 2004  
Reported Claim Counts: Auto & General Liability

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995	1,698	2,165	2,256	2,293	2,301	2,307	2,311	2,311	2,312	2,313
1996		1,820	2,303	2,446	2,487	2,517	2,522	2,523	2,527	2,530
1997			1,926	2,317	2,436	2,478	2,485	2,489	2,490	2,490
1998				1,630	1,959	2,098	2,164	2,178	2,179	2,210
1999					1,824	2,197	2,333	2,385	2,397	2,467
2000						1,559	1,917	2,020	2,080	2,116
2001							2,189	2,549	2,627	2,706
2002								1,622	1,966	2,099
2003									1,889	2,191
2004										1,791
Totals	1,698	3,985	6,485	8,686	11,007	13,156	15,921	18,077	20,467	22,913

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Paid Losses: Auto Physical Damage

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$102,703	\$103,358	\$103,358	\$103,955	\$103,955	\$103,955	\$103,955	\$103,955	\$103,955	\$103,955
1996		\$8,060	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204
1997			\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060
1998				\$23,484	\$51,513	\$51,513	\$51,513	\$51,513	\$51,513	\$51,513
1999					\$39,927	\$31,047	\$28,190	\$28,430	\$28,430	\$28,430
2000						\$130,302	\$139,359	\$138,379	\$137,759	\$137,759
2001							\$40,798	\$55,201	\$54,454	\$54,454
2002								\$66,922	\$102,889	\$102,889
2003									\$116,908	\$459,621
2004										\$72,579
Total	\$102,703	\$111,418	\$143,622	\$167,703	\$235,659	\$357,081	\$404,079	\$484,664	\$636,172	\$1,051,464

Accident Year	Loss Payments During:										Total
	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	
1995 & prior	\$102,703										\$103,955
1996		\$655	\$0	\$597	\$0	\$0	\$0	\$0	\$0	\$0	\$18,204
1997		\$8,060	\$10,144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$22,060
1998			\$22,060	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$51,513
1999				\$23,484	\$28,029	\$0	\$0	\$0	\$0	\$0	\$28,430
2000					\$39,927	(\$8,880)	(\$2,857)	\$240	\$0	\$0	\$137,759
2001						\$130,302	\$9,057	(\$980)	(\$620)	\$0	\$54,454
2002							\$40,798	\$14,403	(\$747)	\$0	\$102,889
2003								\$66,922	\$35,967	\$0	\$459,621
2004									\$116,908	\$342,713	\$72,579
Total	\$102,703	\$8,715	\$32,204	\$24,081	\$67,956	\$121,422	\$46,998	\$80,585	\$151,508	\$415,292	\$1,051,464

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Case Reserves: Auto Physical Damage

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$24,314	\$0	\$3,314	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1996		\$3,314	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1997			\$5,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1998				\$18,010	\$0	\$0	\$0	\$0	\$0	\$0
1999					\$0	\$0	\$0	\$0	\$0	\$0
2000						\$0	\$0	\$0	\$0	\$0
2001						\$0	\$0	\$0	\$0	\$0
2002						\$0	\$11,625	\$0	\$0	\$0
2003							\$15,000	\$0	\$0	\$0
2004								\$483,200	\$8,739	\$11,395
Total	\$24,314	\$3,314	\$8,314	\$18,010	\$0	\$0	\$11,625	\$15,000	\$483,200	\$20,134

Accident Year	Change in Case Reserves During:										Total
	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	
1995 & prior	\$24,314	(\$24,314)	\$3,314	(\$3,314)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1996		\$3,314	(\$3,314)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1997			\$5,000	(\$5,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1998				\$18,010	(\$18,010)	\$0	\$0	\$0	\$0	\$0	\$0
1999					\$0	\$0	\$0	\$0	\$0	\$0	\$0
2000						\$0	\$0	\$0	\$0	\$0	\$0
2001						\$0	\$0	\$0	\$0	\$0	\$0
2002							\$11,625	(\$11,625)	\$0	\$0	\$0
2003							\$15,000	\$15,000	(\$15,000)	\$0	\$0
2004								\$483,200	\$483,200	(\$474,461)	\$8,739
Total	\$24,314	(\$21,000)	\$5,000	\$9,696	(\$18,010)	\$0	\$11,625	\$3,375	\$468,200	(\$463,066)	\$20,134

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Reported Losses (Paid Losses Plus Case Reserves): Auto Physical Damage

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$127,017	\$103,358	\$106,672	\$103,955	\$103,955	\$103,955	\$103,955	\$103,955	\$103,955	\$103,955
1996		\$11,374	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204	\$18,204
1997			\$27,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060	\$22,060
1998				\$41,494	\$51,513	\$51,513	\$51,513	\$51,513	\$51,513	\$51,513
1999					\$39,927	\$31,047	\$28,190	\$28,430	\$28,430	\$28,430
2000						\$130,302	\$139,359	\$138,379	\$137,759	\$137,759
2001							\$52,423	\$55,201	\$54,454	\$54,454
2002								\$81,922	\$102,889	\$102,889
2003									\$600,108	\$468,360
2004										\$83,974
Total	\$127,017	\$114,732	\$151,936	\$185,713	\$235,659	\$357,081	\$415,704	\$499,664	\$1,119,372	\$1,071,598

Accident Year	Incremental Losses Reported During:										Total
	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	
1995 & prior	\$127,017	(\$23,659)	\$3,314	(\$2,717)	\$0	\$0	\$0	\$0	\$0	\$0	\$103,955
1996		\$11,374	\$6,830	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,204
1997			\$27,060	(\$5,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$22,060
1998				\$41,494	\$10,019	\$0	\$0	\$0	\$0	\$0	\$51,513
1999					\$39,927	(\$8,880)	(\$2,857)	\$240	\$0	\$0	\$28,430
2000						\$130,302	\$9,057	(\$980)	(\$620)	\$0	\$137,759
2001							\$52,423	\$2,778	(\$747)	\$0	\$54,454
2002								\$81,922	\$20,967	\$0	\$102,889
2003									\$600,108	(\$131,748)	\$468,360
2004										\$83,974	\$83,974
Total	\$127,017	(\$12,285)	\$37,204	\$33,777	\$49,946	\$121,422	\$58,623	\$83,960	\$619,708	(\$47,774)	\$1,071,598

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
 Ten Years of Loss Development ending June 30, 2004  
 Reported Claim Counts: Auto Physical Liability

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995	416									
1996		431	431	431	430	430	430	430	430	430
1997		422	458	459	460	460	461	461	461	461
1998			500	529	529	529	529	529	529	529
1999				476	515	516	516	516	516	516
2000					539	572	573	573	573	573
2001						508	566	567	567	567
2002							633	691	691	691
2003								644	703	703
2004									606	651
Total	416	853	1,389	1,895	2,473	3,015	3,708	4,411	5,076	5,713

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Paid Losses: Property

Accident Year	Evaluation (as of) Date:												Total
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	02-03	03-04	
1995 & prior													
1996	\$6,961,859	\$7,262,217	\$7,276,941	\$7,263,112	\$7,257,918	\$7,248,378	\$7,244,913	\$7,241,457	\$7,235,594	\$7,230,115			\$7,230,115
1997		\$815,236	\$1,742,263	\$1,671,661	\$1,671,661	\$1,671,661	\$1,732,538	\$1,732,538	\$1,732,538	\$1,732,538			\$1,732,538
1998			\$1,147,079	\$1,496,355	\$1,753,140	\$1,753,140	\$1,693,369	\$1,693,369	\$1,693,369	\$1,693,369			\$1,693,369
1999				\$1,018,986	\$2,177,476	\$2,216,358	\$2,210,199	\$2,210,994	\$2,210,994	\$2,210,994			\$2,210,994
2000					\$1,714,797	\$2,572,710	\$2,802,646	\$2,802,646	\$2,802,646	\$2,802,646			\$2,802,646
2001						\$514,762	\$1,596,083	\$1,694,923	\$1,708,042	\$1,706,804			\$1,706,804
2002							\$1,276,842	\$1,998,275	\$2,007,619	\$2,007,029			\$2,007,029
2003								\$580,526	\$1,400,491	\$1,441,522			\$1,441,522
2004									\$1,967,582	\$2,835,856			\$2,835,856
										\$979,783			\$979,783
Total	\$6,961,859	\$8,077,453	\$10,166,283	\$11,450,114	\$14,574,992	\$15,977,008	\$18,556,590	\$19,954,729	\$22,758,875	\$24,640,656			\$24,640,656
Loss Payments During:													
1995 & prior													
1996	\$6,961,859	\$300,358	\$14,724	(\$13,829)	(\$5,194)	(\$9,540)	(\$3,465)	(\$3,456)	(\$5,863)	(\$5,479)			\$7,230,115
1997		\$815,236	\$927,027	(\$70,602)	\$0	\$0	\$60,877	\$0	\$0	\$0			\$1,732,538
1998			\$1,147,079	\$349,276	\$256,785	\$0	(\$59,771)	\$0	\$0	\$0			\$1,693,369
1999				\$1,018,986	\$1,158,490	\$38,882	(\$6,159)	\$796	\$0	\$0			\$2,210,994
2000					\$1,714,797	\$857,913	\$229,936	\$0	\$0	\$0			\$2,802,646
2001						\$514,762	\$1,081,321	\$98,840	\$13,119	(\$1,238)			\$1,706,804
2002							\$1,276,842	\$721,433	\$9,344	(\$590)			\$2,007,029
2003								\$580,526	\$819,965	\$41,031			\$1,441,522
2004									\$1,967,582	\$868,274			\$2,835,856
										\$979,783			\$979,783
Total	\$6,961,859	\$1,115,594	\$2,088,830	\$1,283,831	\$3,124,878	\$1,402,017	\$2,579,581	\$1,398,139	\$2,804,147	\$1,881,781			\$24,640,656

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Case Reserves: Property

Accident Year	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior										
1996	\$286,878	\$64,938	\$28,800	\$3,600	\$3,600	\$3,600	\$3,600	\$0	\$0	\$0
1997		\$750,381	\$31,677	\$0	\$0	\$60,877	\$0	\$0	\$0	\$0
1998			\$571,990	\$381,298	\$4,000	\$2,000	\$1,000	\$0	\$0	\$0
1999				\$608,668	\$41,586	\$9,073	\$210	\$0	\$0	\$0
2000					\$620,873	\$221,676	\$45	\$0	\$0	\$0
2001						\$844,013	\$73,259	\$9,778	\$0	\$0
2002							\$521,601	\$25,740	\$12,600	\$12,600
2003								\$1,013,331	\$81,343	\$17,381
2004									\$666,419	\$101,081
Total	\$286,878	\$815,319	\$632,467	\$993,566	\$670,059	\$1,141,239	\$599,715	\$1,048,849	\$760,362	\$612,233

Accident Year	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	Total
1995 & prior											
1996	\$286,878	(\$221,940)	(\$36,138)	(\$25,200)	\$0	\$0	\$0	(\$3,600)	\$0	\$0	\$0
1997		\$750,381	(\$718,704)	(\$31,677)	\$0	\$60,877	(\$60,877)	\$0	\$0	\$0	\$0
1998			\$571,990	(\$190,692)	(\$377,298)	(\$2,000)	(\$1,000)	(\$1,000)	\$0	\$0	\$0
1999				\$608,668	(\$567,082)	(\$32,513)	(\$8,863)	(\$210)	\$0	\$0	\$0
2000					\$620,873	(\$399,197)	(\$221,631)	(\$45)	\$0	\$0	\$0
2001						\$844,013	(\$770,754)	(\$63,481)	(\$9,778)	\$0	\$0
2002							\$521,601	(\$495,861)	(\$13,140)	\$0	\$12,600
2003								\$1,013,331	(\$931,988)	(\$63,962)	\$17,381
2004									\$666,419	(\$565,338)	\$101,081
Total	\$286,878	\$528,441	(\$182,852)	\$361,099	(\$323,507)	\$471,180	(\$541,524)	\$449,134	(\$288,487)	\$481,171	\$612,233

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2004  
Reported Losses (Paid Losses Plus Case Reserves): Property

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995 & prior	\$7,248,737	\$7,327,155	\$7,305,741	\$7,266,712	\$7,261,518	\$7,251,978	\$7,248,513	\$7,241,457	\$7,235,594	\$7,230,115
1996		\$1,565,617	\$1,773,940	\$1,671,661	\$1,671,661	\$1,732,538	\$1,732,538	\$1,732,538	\$1,732,538	\$1,732,538
1997			\$1,719,069	\$1,877,653	\$1,757,140	\$1,755,140	\$1,694,369	\$1,693,369	\$1,693,369	\$1,693,369
1998				\$1,627,654	\$2,219,062	\$2,225,431	\$2,210,409	\$2,210,994	\$2,210,994	\$2,210,994
1999					\$2,335,670	\$2,794,386	\$2,802,691	\$2,802,646	\$2,802,646	\$2,802,646
2000						\$1,358,775	\$1,669,342	\$1,704,701	\$1,708,042	\$1,706,804
2001							\$1,798,443	\$2,024,015	\$2,020,219	\$2,019,629
2002								\$1,593,858	\$1,481,834	\$1,458,903
2003									\$2,634,001	\$2,936,937
2004										\$1,460,954
Total	\$7,248,737	\$8,892,772	\$10,798,750	\$12,443,680	\$15,245,051	\$17,118,247	\$19,156,305	\$21,003,578	\$23,519,237	\$25,252,889

Incremental Losses Reported During:

Accident Year	Incremental Losses Reported During:										Total
	86-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	
1995 & prior	\$7,248,737	\$78,418	(\$21,414)	(\$39,029)	(\$5,194)	(\$9,540)	(\$3,465)	(\$7,056)	(\$5,863)	(\$5,479)	\$7,230,115
1996		\$1,565,617	\$208,323	(\$102,279)	\$0	\$60,877	\$0	\$0	\$0	\$0	\$1,732,538
1997			\$1,719,069	\$158,584	(\$120,513)	(\$2,000)	(\$60,771)	(\$1,000)	\$0	\$0	\$1,693,369
1998				\$1,627,654	\$591,408	\$6,369	(\$15,022)	\$586	\$0	\$0	\$2,210,994
1999					\$2,335,670	\$458,716	\$8,305	(\$45)	\$0	\$0	\$2,802,646
2000						\$1,358,775	\$310,567	\$35,359	\$3,341	(\$1,238)	\$1,706,804
2001							\$1,798,443	\$225,572	(\$3,796)	(\$590)	\$2,019,629
2002								\$1,593,858	(\$112,023)	(\$22,931)	\$1,458,903
2003									\$2,634,001	\$302,936	\$2,936,937
2004										\$1,460,954	\$1,460,954
Total	\$7,248,737	\$1,644,035	\$1,905,978	\$1,644,930	\$2,801,371	\$1,873,197	\$2,038,057	\$1,847,273	(\$118,341)	(\$30,238)	\$25,252,889



MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development ending June 30, 2004  
Reported Claim Counts: Property

Accident Year	Evaluation (as of) Date:									
	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1995	179									
1996		224	226	226	226	226	226	226	226	226
1997		232	267	267	267	267	267	267	267	267
1998			234	268	271	271	271	271	271	271
1999				235	285	285	285	285	285	285
2000					287	324	328	328	328	328
2001						239	289	292	293	293
2002							290	345	349	349
2003								277	332	333
2004									321	358
Total	179	456	727	996	1,336	1,612	1,956	2,291	2,672	3,022

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
GENERAL FUND BUDGET COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2004**

	ANNUAL BUDGET	ACTUAL	PERCENT	VARIANCE POSITIVE (NEGATIVE)
<b>RESOURCES:</b>				
Contributions-				
MMRMA	\$ 45,642,000	\$48,467,556	106%	\$ 2,825,556
Affiliated	908,000	1,192,629	131%	284,629
Investment Income, Net	<u>5,000,000</u>	<u>19,865,845</u>	<u>397%</u>	<u>14,865,845</u>
<b>TOTAL</b>	<b><u>\$ 51,550,000</u></b>	<b><u>\$69,526,030</u></b>	<b><u>135%</u></b>	<b><u>\$17,976,030</u></b>
<b>INHOUSE SERVICES:</b>				
Membership Services	\$15,378,000	\$14,497,767	94%	\$ 880,233
Administrative Services	1,787,575	1,886,235	(106)%	(98,660)
Claims Services	1,730,380	1,520,814	88%	209,566
Risk Mgmt & Underwriting	5,051,650	4,796,922	95%	254,728
Information Services	<u>619,970</u>	<u>489,387</u>	<u>79%</u>	<u>130,583</u>
<b>TOTAL</b>	<b><u>\$24,567,575</u></b>	<b><u>\$23,191,125</u></b>	<b><u>94%</u></b>	<b><u>\$1,376,450</u></b>
RETAINED RISK PORTION	<u>\$26,982,425</u>	<u>\$46,334,905</u>	<u>172%</u>	<u>\$ 19,352,480</u>
<b>PAYMENTS:</b>				
Claims & Legal	\$18,000,000	\$13,830,482	77%	\$ 4,169,518
<b>TOTAL</b>	<b><u>\$18,000,000</u></b>	<b><u>\$13,830,482</u></b>	<b><u>77%</u></b>	<b><u>\$ 4,169,518</u></b>
TO NET ASSETS	\$ 8,982,425	\$ 32,504,423	362%	<u>\$ 23,521,998</u>
ADD BEGINNING BALANCE	<u>\$142,276,429</u>	<u>\$152,276,430</u>		
ENDING NET ASSETS Before Reserves	<u>\$161,258,854</u>	<u>\$184,780,853</u>		

**SECTION IV**  
**STATISTICAL DATA**

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND FUND BALANCES**  
**GENERAL FUND**

**FOR THE TEN YEARS ENDED JUNE 30, 1995 THROUGH JUNE 30, 2004**

	2000	2001	2002	2003	2004
<b>REVENUES:</b>					
Member Contributions	\$30,599,127	\$31,506,662	\$35,849,700	\$41,856,221	47,535,705
Other Income	719,181	974,977	986,051	988,183	2,124,480
Investment Income (Loss)	<u>14,696,041</u>	<u>(14,951,155)</u>	<u>(3,769,786)</u>	<u>6,559,221</u>	<u>19,865,845</u>
<b>TOTAL REVENUES</b>	<u>\$46,014,349</u>	<u>\$17,530,484</u>	<u>\$33,065,965</u>	<u>\$49,403,625</u>	<u>\$69,526,030</u>
<b>EXPENSES:</b>					
Claims & Legal Expenses Paid	\$11,342,683	\$17,214,650	\$15,823,033	\$17,950,227	\$13,830,482
Increase (Decrease) in Reserves for Reported Losses & Legal Expense	1,148,496	1,894,147	273,404	(3,347,662)	1,314,570
Increase (Decrease) in Reserves for Claims Incurred But Not Reported	2,107,027	(6,123,322)	11,361,923	(656,498)	1,065,262
Reinsurance and Other Expenses	<u>14,881,918</u>	<u>15,415,567</u>	<u>20,627,870</u>	<u>21,736,841</u>	<u>23,191,125</u>
<b>TOTAL EXPENSES</b>	<u>\$29,480,124</u>	<u>\$28,401,042</u>	<u>\$48,086,230</u>	<u>\$35,682,908</u>	<u>\$39,401,439</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>	\$16,534,225	\$ (10,870,558)	\$ (15,020,265)	\$13,720,717	30,124,591
<b>NET ASSETS, Beginning of Year</b>	76,255,965	92,790,190	81,919,632	66,899,367	80,620,084
Unrealized Appreciation of Investments	-----	-----	-----	-----	-----
Cumulative Effect of Accounting Change	-----	-----	-----	-----	-----
<b>NET ASSETS, End of Year</b>	<u>\$92,790,190</u>	<u>\$81,919,632</u>	<u>\$66,899,367</u>	<u>\$80,620,084</u>	<u>110,744,675</u>

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Reported Loss History (Paid Losses Plus Case Reserves)  
For the Ten-Years Ended June 30, 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Auto & Gen Liab	\$8,062,127	\$9,584,419	\$15,406,480	\$14,062,208	\$9,617,618	\$15,054,033	\$11,229,542	\$6,962,844	\$6,576,317	\$2,341,004
Property	\$1,004,957	\$1,732,538	\$1,693,369	\$2,210,994	\$2,802,646	\$1,706,804	\$2,019,629	\$1,458,903	\$2,936,937	\$1,460,954
Auto Phys. Liability	\$19,351	\$18,204	\$22,060	\$51,513	\$28,430	\$137,759	\$54,454	\$102,889	\$468,360	\$83,974
Total	\$9,086,435	\$11,335,161	\$17,121,909	\$16,324,715	\$12,448,694	\$16,898,596	\$13,303,625	\$8,524,636	\$9,981,614	\$3,885,932
Avg. Cost per claim	\$3,061	\$3,479	\$5,204	\$5,422	\$3,696	\$5,678	\$3,551	\$2,719	\$3,119	\$1,442

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Claim Activity  
for the Ten-Year Period Ended June 30, 2004

In the last ten of the nineteen years in which MMRMA has been retaining risk, it's members have incurred the following number of claims, which reflects the impact of changes in total membership.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Auto & Gen. Liability	2,313	2,530	2,490	2,210	2,467	2,116	2,706	2,099	2,191	1,791
Property	226	267	271	285	328	293	349	333	358	312
Auto Phys. Liability	430	461	529	516	573	567	691	703	651	592
Total	2,969	3,258	3,290	3,011	3,368	2,976	3,746	3,135	3,200	2,695
Claims Settled	2,965	3,234	3,271	2,986	3,291	2,903	3,576	2,920	2,933	1,614
Claims Pending	4	24	19	25	77	73	170	215	267	1,081
Total	2,969	3,258	3,290	3,011	3,368	2,976	3,746	3,135	3,200	2,695
Member Count	272	274	282	290	332	310	329	337	337	341

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Member Growth Analysis  
for the Ten-Year Period Ended June 30, 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Number of Members	272	274	282	290	332	310	329	337	337	341
Total Member Assessment	\$41,923,839	\$40,718,857	\$39,744,434	\$40,993,857	\$42,044,471	\$45,625,212	\$46,381,722	\$52,817,749	\$56,555,239	\$66,080,733
Total Number of Claims	2,968	3,258	3,290	3,011	3,368	2,976	3,746	3,135	3,200	2,695
Total Incurred Losses	\$ 9,086,435	\$ 11,335,161	\$ 17,121,909	\$ 16,324,715	\$ 12,448,694	\$ 16,898,596	\$ 13,303,624	\$ 8,524,636	\$ 9,981,614	\$ 3,885,932

# MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

## 2004 SCOPE OF COVERAGES

The major categories of insurance protection MMRMA provides its members are listed as follows:

### **PROPERTY**

- Real Property
- Personal Property
- Fine Arts
- Inland Marine
- Electronic Data Processing Equipment
- Boilers and Machinery
- Income/Extra Expense
- Earthquake
- Flood
- Debris Removal
- Accounts Receivable
- Valuable Papers
- Storm or Sanitary Sewer Backup
- Limited Terrorism Coverage

### **GENERAL LIABILITY**

- Comprehensive General Liability
- Public Officials Liability
- Police Professional Liability
- Contractual Liability
- Judicial Tenure
- Volunteer Medical Payments
- First Aid Coverage
- Limited Terrorism Coverage
- Limited Sewer Back-Up Coverage

### **AUTOMOBILE LIABILITY**

- Bodily Injury
- Property Damage
- Personal Injury
- Michigan No-Fault

### **CRIME**

- Broad Form Money and Securities
- Employee Fidelity & Faithful Performance
- Depositors Forgery
- Public Official Bonds

### **AUTO PHYSICAL DAMAGE**



**LIABILITY REINSURANCE PORTFOLIO**  
**JULY 1, 2003 - MARCH 31, 2005**

REINSURER	NET PREMIUMS WRITTEN (\$000)	POLICYHOLDERS' SURPLUS (\$000)	A.M. BEST RATING
Partner Reins Company of the U.S.	\$ 1,039,446	\$ 545,672	A+
PMA Capital Insurance Company	494,629	500,617	B++
Liberty Mutual Insurance Co.	5,837,881	6,123,094	A
ACE Property & Casualty Ins. Co.	988,486	767,227	A
GE Reinsurance Corporation	617,849	667,196	A
St. Paul Fire & Marine Insurance Co.	5,273,605	5,075,727	A
Platinum Underwriters Re	667,516	372,922	A
Government Entities Mutual	4,591	9,959	NR-1

**PROPERTY REINSURANCE PORTFOLIO**  
**JULY 1, 2003 - JUNE 30, 2004**

REINSURER	NET PREMIUMS WRITTEN (\$000)	POLICYHOLDERS' SURPLUS (\$000)	A.M. BEST RATING
ACE Bermuda Insurance Ltd.	1,256,382	1,554,489	A+
Underwriters at Lloyd	Not Available	Not Available	Not Available
The Travelers Indemnity Co.	2,850,109	4,501,012	A+
Government Entities Mutual	4,591	9,959	NR-1

## 2004 COVERAGE OVERVIEW

### LIABILITY COVERAGE

#### LAYER 1

925,000 x SIR  
Retained 100% by MMRMA

#### LAYER 2

\$4,000,000 xs \$1,000,000

07/01/03 - 3/31/04

04/01/04 - 3/31/05

MMRMA	27. %	G.E. REINS CORP	30.0 %
ACE TEMPEST REINS. CO LTD	25.0	ACE PROP & CAS CO.	25.0
G.E REINS CORP	20.0	GOVT. ENTITIES MUTUAL	15.0
PMA CAPITAL INS. CO.	10.0	MMRMA	15.0
ST. PAUL FIRE & MARINE INS. CO	10.0	PARTNER REINS CO. OF U.S.	15.0
PARTNER REINS CO. OF US	<u>7.5</u>		<u>100.0 %</u>
	100.0%		

#### LAYER 3

\$5,000,000 xs \$5,000,000

07/01/03-3/31/04

04/01/04-3/31/05

ST. PAUL FIRE & MARINE INS. CO.	30.0%	G.E. REINS CORP	50.0 %
ACE TEMPEST REINS CO. LTD	25.0	ACE PROP & CAS CO.	25.0
LIBERTY MUTUAL INS. CO	20.0	LIBERTY MUTUAL INS. CO.	15.0
G.E. REINS. CORP	15.0	PARTNER RE	<u>10.0</u>
PMA CAPITAL INS. CO.	<u>10.0</u>		<u>100.0 %</u>
	100,0%		

#### LAYER 4

**\$5,000,000 xs 10,000,000**

07/01/03 - 03/31/04

04/01/04 - 03/31/05

ST. PAUL FIRE & MARINE INS. CO	35.0%	G.E. REIN CORP	40.0%
ACE TEMPEST REINS CO. LTD	25.0	PLATINUM UNDERWRITERS	40.0
LIBERTY MUTUAL INS. CO	20.0	LIBERTY MUTUAL INS. CO	<u>20.0</u>
G.E. REINS CORP	10.0		100.0%
PMA CAPITAL INS. CO.	<u>10.0</u>		
	100.0%		

### **PROPERTY COVERAGE**

#### LAYER 1

90 % OF 1<sup>ST</sup> 100,000  
MMRMA 100 %

#### LAYER 4

65 Million xs 10,000,000  
ACE 50%  
TRAVELERS 50%  
100%

#### LAYER 2

400,000 XS 100,000  
MMRMA 100.0 %

#### LAYER 5

125 Million xs 75 Million  
LLOYDS 100%

#### LAYER 3

10.0 Million xs 500,000  
ACE LTD 45%  
TRAVELERS 45%  
GEM 10%  
100%

#### TERRORISM

25 Million per occurrence  
TRAVELERS 100%

### **AUTO PHYSICAL DAMAGE COVERAGE**

1,485,000 x 15,000  
MMRMA 100 %

**SECTION V**  
**GLOSSARY**

# MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

## GLOSSARY

**Accident Period** - Period that includes the date of occurrence of loss, regardless of the report and payment dates.

**ALAE (Allocated Loss Adjustment Expenses)** - Attorneys' fees, investigative fees, etc., associated with individual claims.

**CAFR** - Comprehensive annual financial report.

**Case Reserve** - A claim administrator's estimate of the future payments on a known case.

**Case Reserve Development** - Changes in reserve amounts on known cases as more information becomes available over time.

**Development Triangles** - Information on number of claims or amounts of losses organized into triangular form for determination of development factors.

**Discount Factor** - Factor to decrease the amount of money required at some future date so that the discounted current amount plus accrued interest will equal the required amount at the future date.

**Ultimate Losses** - An estimate of the total dollar amount, including ALAE, that will be paid on a particular set of claims.

**GAAP** - Generally accepted accounting principles.

**GASB** - Governmental Accounting Standards Board.

**Incurred Losses** - Sum of paid losses and case reserves, including ALAE.

**ULAE (Unallocated Loss Adjustment Expense)** - Cost of handling claims not directly attributable to individual claims.

**IBNR (Incurred But Not Reported)** - Losses that have not been reported, arising out of claims that have occurred. This includes both losses for claims that have not been reported and case reserve development of reported claims.

AUDITED FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTAL FINANCIAL INFORMATION

Michigan Municipal Risk Management Authority

Years ended June 30, 2004 and 2003

With Report of Independent Auditors

Michigan Municipal Risk Management Authority

Financial Statements and Required  
Supplemental Financial Information

Years ended June 30, 2004 and 2003

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## Report of Independent Auditors

To the Board of Directors  
Michigan Municipal Risk Management Authority

We have audited the accompanying statements of net assets of Michigan Municipal Risk Management Authority (a municipal joint venture) (the Authority) as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Michigan Municipal Risk Management Authority as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis on pages 2 through 11, Supplemental Claims Development Information Schedule (unaudited) on page 28, and the Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (unaudited) on page 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Ernst & Young LLP*

October 12, 2004



# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis

Year ended June 30, 2004

This section of the Michigan Municipal Risk Management Authority's (the Authority) annual financial report presents our discussion and analysis of performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

The Authority is a public entity self-insurance pool that provides property and liability coverages to its participating Members. Membership is limited to municipal corporations as defined by Michigan Statute.

The Authority was formed in 1980 under statutes enacted to implement the authority granted by Article 7, Sections 27 and 28 of the Constitution of the State of Michigan, which authorizes local units of government to contract with each other for the joint administration of any functions or powers which each would have the power to perform separately. Public Act, 1982, No. 138 specifically authorized local units of government to contract jointly to undertake cooperative action to provide risk management and self-insurance coverages. The Authority was incorporated January 1, 1980, as an intergovernmental agency.

The Authority is financed by contributions from its member municipal corporations. Contributions paid by Members are based upon underwriting criteria and guidelines approved by the Board of Directors. The Authority has three categories of membership: Individual Members-individual municipal corporations, each maintaining a separate self-insured retention; Pool Members, an association of risk-sharing members; and Affiliated Members, which are other "Public Act 138" organizations that contract with the Authority for certain coverages and services. The only current Affiliated Member is the Michigan Community College Risk Management Authority, which contracts with the Authority for reinsurance, claims adjusting, and underwriting services.

Individual Members each maintain a minimum amount of funds, in an amount established by the Executive Director, on deposit with the Authority. The Pool, acting as a single member, also maintains funds on deposit with the Authority. Members' funds on deposit are accounted for on the cash basis in the Members' Retention Fund and are used primarily to pay claims and related loss adjustment expenses that are obligations of the Members.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Overview of the Financial Statements**

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The Authority's activity is maintained in one fund. The basic statements, which follow this section, provide both long-term and short-term information about the Authority's financial status. These basic financial statements report information about the Authority using the accrual method of accounting in accordance with accounting principles generally accepted in the United States. These statements reflect only the risk carried by the Authority, which also includes any potential unrecoverable reinsurance claims. The three basic financial statements presented are as follows:

- **Statements of Net Assets:** These statements present information reflecting the Authority's assets, liabilities and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- **Statements of Revenues, Expenses, and Changes in Net Assets:** These statements reflect the operating and non-operating revenues and expenses for the previous two fiscal years. Operating revenues primarily consist of member contributions with the major sources of operating expenses being claims and claims adjustment expense, general and administrative expenses and reinsurance costs. Nonoperating revenues consist primarily of investment income.
- **Statements of Cash Flows:** The statements of cash flows are presented on the direct method of reporting which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the fiscal year.

# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (continued)

### Financial Analysis of Authority

The statements report the Authority's net assets and how they have changed. Net assets - the difference between the Authority's assets and liabilities - is one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving, or deteriorating, respectively.

	2004	June 30 2003	2002
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 34,425,482	\$ 22,627,583	\$ 14,989,195
Member contributions receivable	4,862,076	5,424,844	4,051,712
Reinsurance recoverable	2,579,734	3,612,959	3,260,517
Fixed maturities at fair value	50,274,934	-	-
Equity securities at fair value	126,774,129	148,608,299	145,853,472
Prepaid expenses and other current assets	1,700,162	1,363,932	1,151,577
Total current assets	220,616,517	181,637,617	169,306,473
Noncurrent assets:			
Office building, net of accumulated depreciation	512,664	630,972	749,279
Total assets	221,129,181	182,268,589	170,055,752
<b>Liabilities</b>			
Current liabilities:			
Reserve for claims and claim adjustment expenses reported	6,546,205	6,063,257	7,293,124
Reserve for claims and claim adjustment expenses incurred but not reported	20,653,264	21,252,740	20,503,092
Reinsurance premiums and casualty treaty adjustments payable	283,189	3,664,740	4,439,730
Accrued expenses	1,354,853	1,389,461	1,540,901
Other liabilities	9,286,883	1,171,804	-
Unearned contributions	11,232,169	11,545,663	9,576,321
Member funds held on deposit	14,191,234	12,220,491	11,938,927
Total current liabilities	63,547,797	57,308,156	55,292,095
Reserve for claims and claim adjustment expenses reported, net of current portion	11,272,379	10,440,756	12,558,551
Reserve for claims and claim adjustment expenses incurred but not reported, net of current portion	35,564,330	33,899,593	35,305,739
Total noncurrent liabilities	46,836,709	44,340,349	47,864,290
Total liabilities	110,384,506	101,648,505	103,156,385
<b>Net assets</b>			
Invested in capital assets	512,664	630,972	-
Net unrestricted assets	110,232,011	79,989,112	66,899,367
Total net assets	\$ 110,744,675	\$ 80,620,084	\$ 66,899,367

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

	Years ended June 30		
	2004	2003	2002
<b>Operating revenues</b>			
Member contributions, net	\$ 34,211,994	\$ 28,443,491	\$ 23,060,611
Electric Choice program revenue	5,654,505	4,688,026	1,292,757
Loss contributions from associated programs	1,192,629	988,183	986,051
Total revenues	41,059,128	34,119,700	25,339,419
<b>Operating expenses</b>			
Risk management, underwriting, and other expenses:			
Risk management and accounting expenses	3,860,969	3,676,909	3,357,756
Executive office, underwriting, claims, and other expenses, net	5,260,171	4,812,119	4,518,198
Electric Choice program expenses	5,468,928	4,523,109	1,255,584
Total risk management, underwriting, and other expenses	14,590,068	13,012,137	9,131,538
Net contributions available for claims and related expenses	26,469,060	21,107,563	16,207,881
<b>Claims and related expenses</b>			
Claims and related expenses	16,210,314	13,946,067	27,458,360
Operating income (loss)	10,258,746	7,161,496	(11,250,479)
<b>Nonoperating revenues</b>			
Net increase in fair value of investments	11,540,467	5,692,809	19,334,109
Investment income (loss)	9,122,156	1,549,122	(22,551,377)
Interest expense on member funds held on deposit	(796,778)	(682,710)	(552,518)
Net investment income (loss)	19,865,845	6,559,221	(3,769,786)
Increase (decrease) in net assets	\$ 30,124,591	\$ 13,720,717	\$ (15,020,265)

In addition to net assets, when assessing the overall health of the Authority, the reader needs to consider other non-financial factors such as the legal climate in the State, the general state of the financial markets and the level of risk prevention undertaken by the Authority and its members.

The Authority cannot control the first two factors. However, since its inception, the Authority has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of municipal operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committee.

The advisory committees meet throughout the year to produce model policies and procedures and facilitate training in the areas of building and court security, law enforcement, parks and recreation, fire/EMS, telecommunications, employment and public works.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Condensed Comparative Financial Highlights**

***2004 Compared to 2003***

- Overall, the Authority's net assets increased by \$30.1 million (37.4%) from \$80.6 million to \$110.7 million.
- Total revenues increased by \$7.0 million (20.5%) from \$34.1 million to \$41.1 million.
- Risk management, underwriting and other administrative expenses increased by \$600,000 (7.4%) from \$8.5 million to \$9.1 million.
- Net contributions used to fund the risk carried by the Authority increased by \$5.4 million (25.4%) from \$21.1 million to \$26.5 million.
- Claim payments decreased by \$4.1 million (23.0%) from \$17.9 million to \$13.8 million
- Outside reinsurance costs increased by \$900,000 (6.2%) from \$13.2 million to \$14.1 million.
- Reserves (reported net of estimated reinsurance recoveries), both reported and incurred but not reported, increased by \$2.4 million.
- Investment income of \$19.9 million was earned this year compared to \$6.6 million in the prior year.

***2003 Compared to 2002***

- Overall, the Authority's net assets increased by \$13.7 million (20.5%) from \$66.9 million to \$80.6 million.
- Total revenues increased by \$8.8 million (34.8%) from \$25.3 million to \$34.1 million.
- Risk management, underwriting and other administrative expenses increased by \$600,000 (7.6%) from \$7.9 million to \$8.5 million.
- Net contributions used to fund the risk carried by the Authority increased by \$4.9 million (30.2%) from \$16.2 million to \$21.1 million.
- Claim payments increased by \$2.1 million (13.3%) from \$15.8 million to \$17.9 million
- Outside reinsurance costs increased by \$400,000 (3.1%) from \$12.8 million to \$13.2 million.

## Michigan Municipal Risk Management Authority

### Management's Discussion and Analysis (continued)

- Reserves (reported gross of estimated reinsurance recoveries), both reported and incurred but not reported, decreased by \$14.1 million.
- Investment income of \$6.6 million was earned this year compared to a loss of \$3.8 million in the prior year.

#### **Cash and Cash Equivalents and Investments**

Cash and cash equivalents and investments comprise the most significant numbers in the asset section of the Authority's statements of net assets.

Accordingly, the Board of Directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to insure that capital losses are minimized, whether caused by security defaults or decline in market value. The goal of the Authority is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account the Authority's investment risk constraints. The asset allocation plan and target is 25% to 60% invested in U.S. equities, 35% to 75% in fixed income, and 5% to 20% in cash and equivalents.

Investment guidelines for U.S. equities provide for investing in a broadly diversified portfolio of publicly held stocks, listed on U.S. stock exchanges. The manager may not invest in more than 5% of the outstanding securities of one issuer nor invest more than 5% of the portfolio in the outstanding securities of one issuer.

Investment guidelines for fixed income portfolios consist primarily of diversified U.S. dollar-denominated debt securities issued by the U.S. Government and its agencies and instrumentalities, other U.S.-domiciled issuers, and foreign issuers. Up to 35% of the portfolio may be invested (in the aggregate) in issues of mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities and asset-backed securities. Investment managers may not invest in more than 5% of the outstanding securities of one issue nor invest more than 5% of the portfolio's assets in the securities of one issuer, except for securities issued by the U.S. Government and its agencies and instrumentalities or foreign sovereign issuers (as permitted by the investment guidelines).

## Michigan Municipal Risk Management Authority

### Management's Discussion and Analysis (continued)

The portfolio's debt securities must have a minimum quality rating of B by Standard & Poors (S&P) or B2 by Moody's or above, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by the Investment Managers. The Investment Managers may allocate up to 20% of the total fixed income portfolio to issues with a credit rating below BBB- by S&P or Baa3 by Moody's (the High Yield Segment) no more than 0.5% of the entire fixed income portfolio in any one issuer of High Yield Segment securities. The Investment Managers may allocate up to 10% of the fixed income portfolio to issues denominated in currencies other than the U.S. dollar. The Investment Managers will invest no more than 5% of the foreign fixed income portfolio in any one foreign nonsovereign issuer and no more than 10% of the foreign fixed income portfolio in any one foreign sovereign issuer. The investment Managers shall be permitted to enter into currency forward contracts in order to hedge the portfolio's exposure to foreign currency.

The portfolio is expected to be fully invested at all times. However, the manager may raise cash if they deem it appropriate.

Investment guidelines for cash and cash equivalent portfolios are to follow the American Banking Association investment standards for security-type, quality, and maturity for short-term investment funds (STIF), with money market funds exempted.

Currently, all investments of the Authority are professionally managed in both passive index and active funds and held in trust by Comerica Bank.

A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by Statute.

#### **Reserves for Unpaid Claims**

The Authority's most significant numbers in the liability section of the statement of financial position are the reserves for reported and incurred but not reported claims and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Budgetary Highlights**

The budget for the year ended June 30, 2004, was approved by the board of directors during their June 2003 meeting. There were no subsequent changes made to that budget.

	Budgeted	Actual	Variance Positive (Negative)
REVENUES			
Members	\$ 45,642,000	\$ 48,467,556	\$ 2,825,556
Affiliate	908,000	1,192,629	284,629
Investment Income	5,000,000	19,865,845	14,865,845
Total Revenues	51,550,000	69,526,030	17,976,030
EXPENDITURES			
Membership Services	15,378,000	14,497,767	880,233
Administration	1,787,575	1,886,235	(98,660)
Claims Services	1,730,380	1,520,814	209,566
Risk Management	5,051,650	4,796,922	254,728
Information Services	619,970	489,387	130,583
	24,567,575	23,191,125	1,376,450
CLAIMS PAID	18,000,000	13,830,482	4,169,518
EXCESS REVENUE	<u>\$ 8,982,425</u>	32,504,423	<u>\$ 23,521,998</u>
INCREASE IN RESERVES**		<u>(2,379,832)</u>	
EXCESS OF REVENUES OVER EXPENSES		<u>\$ 30,124,591</u>	

\*\*Not a budgeted item

Total resources actually received by the Authority exceeded budgeted amounts by \$18.0 million or 34.9%. Member and affiliate contributions were \$3.1 million over budget (6.7%) and the Authority experienced a \$19.9 million investment gain rather than the \$5.0 million that was budgeted, resulting in the overall increase.



Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

Membership services expenditures were under the budgeted amount by \$880,000 or 5.7%. This was primarily due to lower actual reinsurance costs, which were not determined until after the budget was approved.

Administrative services were over budget by \$99,000 or 5.5%, primarily due to higher fees charged by investment fund managers due to an increase in the value of investments. Claims services were under budget by \$210,000 or 12.1%, primarily due to certain personnel positions not being filled for the entire year, as well as lower than expected expenditures for contracted services.

Risk management expenses were below budget by \$255,000, primarily due to less being paid to outside Regional Risk Managers since certain members are now serviced by in-house staff.

Information service expenses were under the budget by \$131,000, primarily due to less being spent on programming consultants, and software and computer purchases and maintenance.

Claims and legal expenses paid during the year were \$4.2 million or 23.2% under budget. The actual payment of claims depends on many factors and varies from year to year.

In total, the Authority had budgeted a net revenue over expense amount of \$9.0 million. However, due primarily to higher than budgeted investment income, lower than budgeted reinsurance and personnel costs, and a decrease in claims paid, partially offset by an increase in the actuarially determined incurred but not reported (IBNR) reserves, it experienced a \$30.1 million increase in net assets for the year.

**Capital Assets**

The Authority owns its office building located in Livonia, Michigan. It was built at a cost of \$1.8 million and is being depreciated on a straight-line basis over fifteen years. The State of Michigan requires that furniture and equipment be expensed when purchased. Computer equipment may be capitalized, however, any computer equipment would essentially be fully depreciated or would fall below the Authority's capitalization policy. Therefore, no furniture, general equipment or computer equipment is shown on the statements of net assets.

Michigan Municipal Risk Management Authority  
Management's Discussion and Analysis (continued)

**Economic Factors and Next Year's Budget**

- The reinsurance industry continues to adjust to terrorism threats as well as to uncertain investment market conditions. While the Authority experienced recent significant increases in its reinsurance expenses, we believe the worst may be over and we expect rates to stabilize.
- Pending sewer back-up claims continue to pose an uncertainty.
- The Authority's investments will continue to be impacted by unpredictable market conditions.

**Contacting the Authority's Management**

This financial report is designed to provide our members, customers and the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Authority office at 14001 Merriman Road, Livonia, Michigan 48154. The telephone number is 734-513-0300.

# Michigan Municipal Risk Management Authority

## Statements of Net Assets

	June 30	
	2004	2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,425,482	\$ 22,627,583
Member contributions receivable	4,862,076	5,424,844
Reinsurance recoverable	2,579,734	3,612,959
Fixed maturities at fair value	50,274,934	-
Equity securities at fair value	126,774,129	148,608,299
Prepaid expenses and other current assets	1,700,162	1,363,932
Total current assets	220,616,517	181,637,617
Noncurrent assets:		
Office building, net of accumulated depreciation	512,664	630,972
Total assets	221,129,181	182,268,589
<b>Liabilities</b>		
Current liabilities:		
Reserve for claims and claim adjustment expenses reported	6,546,205	6,063,257
Reserve for claims and claim adjustment expenses incurred but not reported	20,653,264	21,252,740
Reinsurance premiums and casualty treaty adjustments payable	283,189	3,664,740
Accrued expenses	1,354,853	1,389,461
Other liabilities	9,286,883	1,171,804
Unearned contributions	11,232,169	11,545,663
Member funds held on deposit	14,191,234	12,220,491
Total current liabilities	63,547,797	57,308,156
Reserve for claims and claim adjustment expenses reported, net of current portion	11,272,379	10,440,756
Reserve for claims and claim adjustment expenses incurred but not reported, net of current portion	35,564,330	33,899,593
Total noncurrent liabilities	46,836,709	44,340,349
Total liabilities	110,384,506	101,648,505
<b>Net assets</b>		
Invested in capital assets	512,664	630,972
Net unrestricted assets	110,232,011	79,989,112
Net assets	\$ 110,744,675	\$ 80,620,084

See accompanying notes.

# Michigan Municipal Risk Management Authority

## Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30	
	2004	2003
<b>Operating revenues</b>		
Member contributions, gross of reinsurance	\$ 48,281,979	\$ 41,691,304
Member contributions, ceded	(14,069,985)	(13,247,813)
Member contributions, net	34,211,994	28,443,491
Electric Choice program revenue	5,654,505	4,688,026
Loss contributions from associated programs	1,192,629	988,183
Total revenues	41,059,128	34,119,700
<b>Operating expenses</b>		
Risk management, underwriting, and other expenses:		
Risk management and accounting expenses	3,860,969	3,676,909
Executive office, underwriting, claims and other expenses, net	5,260,171	4,812,119
Electric Choice program expenses	5,468,928	4,523,109
Total risk management, underwriting, and other expenses	14,590,068	13,012,137
Net contributions available for claims and related expenses	26,469,060	21,107,563
<b>Claims and related expenses</b>		
Claims and claim adjustment expenses paid,		
gross of subrogation and reinsurance recoveries	17,461,184	25,096,581
Reinsurance recoveries on claims and claims		
adjustment expenses	(3,630,702)	(7,146,354)
Increase (decrease) in net reserve for claims and		
claim adjustment expenses	1,314,570	(3,347,662)
Increase (decrease) in net reserve for claims and claim		
adjustment expenses incurred but not reported	1,065,262	(656,498)
Total claims and related expenses	16,210,314	13,946,067
Operating income	10,258,746	7,161,496
<b>Nonoperating revenues</b>		
Net increase in fair value of investments	11,540,467	5,692,809
Investment income	9,122,156	1,549,122
Interest expense on member funds held on deposit	(796,778)	(682,710)
Net investment income	19,865,845	6,559,221
Increase in net assets	30,124,591	13,720,717
Net assets, beginning of year	80,620,084	66,899,367
Net assets, end of year	\$ 110,744,675	\$ 80,620,084

*See accompanying notes.*

# Michigan Municipal Risk Management Authority

## Statements of Cash Flows

	Years ended June 30	
	2004	2003
<b>Cash flows from operating activities</b>		
Member contributions received	\$ 48,531,252	\$ 42,287,514
Paid to reinsurers	(16,069,891)	(14,331,334)
Electric Choice program revenues received	5,418,179	5,505,357
Electric Choice program expenses paid	(5,266,860)	(5,201,165)
Loss contributions from associated programs	1,192,629	988,183
Risk management and accounting expenses paid	(3,786,020)	(3,866,958)
Executive office, underwriting, claims, and other expenses paid	(3,310,507)	(3,878,073)
Claims and claims adjustment expenses paid	(13,830,482)	(17,950,227)
Net cash provided by operating activities	12,878,300	3,553,297
<b>Cash flows from noncapital financing activities</b>		
Member fund deposits received	16,453,688	14,699,018
Member fund claims and related payments	(15,279,723)	(15,100,164)
Interest paid on member funds held on deposit	(796,778)	(682,710)
Net cash provided by (used in) noncapital financing activities	377,187	(1,083,856)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	176,053,707	27,474,540
Purchases of investments	(186,899,187)	(24,536,559)
Investment income received	9,387,892	2,230,966
Net cash (used in) provided by investing activities	(1,457,588)	5,168,947
Net increase in cash and cash equivalents	11,797,899	7,638,388
Cash and cash equivalents at beginning of year	22,627,583	14,989,195
Cash and cash equivalents at end of year	\$ 34,425,482	\$ 22,627,583
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 10,258,746	\$ 7,161,496
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	118,308	118,307
Changes in assets and liabilities:		
Member contributions receivable	562,768	(1,373,132)
Reinsurance receivables	(309,419)	9,783,681
Prepaid expenses and other	444,607	(211,489)
Reserves for claims and claim adjustments expenses	3,722,476	(14,140,283)
Reinsurance premiums and casualty treaty adjustments payable	(3,381,551)	(774,990)
Accrued expenses	(34,608)	(151,440)
Other current liabilities	1,810,467	1,171,804
Unearned contributions	(313,494)	1,969,343
Net cash provided by operating activities	\$ 12,878,300	\$ 3,553,297

See accompanying notes.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements

June 30, 2004

*(In Thousands)*

### 1. The Authority

The Michigan Municipal Risk Management Authority (the Authority) was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services for general and auto liability, motor vehicle physical damage, and property; purchase or otherwise provide for reinsurance, excess insurance or make other provisions for payment of losses and related expenses in excess of risk retained by the Authority; and provide claims, legal defense and related general administrative services to members. The Authority also insures several community mental health associations against spending in excess of their budget through the Authority's Risk Avoidance Program, which was established in October 1998. During 2001, the Authority established an Electric Choice Program, under which eligible Michigan local communities can purchase electric energy wholesale for their own use. On behalf of the communities, the Authority negotiates and enters into contracts to purchase electric energy for municipal purposes.

Any member may withdraw from the Authority at the end of any anniversary year by giving at least 90 days notice in writing of its desire to withdraw. Any member withdrawing from the Authority while having a positive balance in its funds held on deposit may withdraw such funds less projected allocated claims expenses. Any member withdrawing from the Authority having a negative balance in its funds held on deposit account shall repay the Authority such negative balance and claims expenses incurred. At the request of the withdrawing member, the Authority shall continue to service any pending claim and the member shall reimburse the Authority for claims expenses incurred. Coverage in excess of the Members' retention shall not be afforded a withdrawing member for claims not serviced by the Authority.

Pursuant to the Michigan Code, the Authority submits a detailed budgetary schedule of the administrative expenses to the State prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP).

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The Authority has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989, unless the GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.

The Authority distinguishes operating revenues and expenses from nonoperating. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues and expenses of the Authority relate to premium revenues and claims and administrative expenses. Premium contributions received covering future contract period are deferred and recognized over the related contract periods. Net investment earnings are reported as nonoperating revenues.

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - of State and Local Governments*. As a government agency, the Authority was required to adopt GASB Statement No. 34 in fiscal 2003. GASB Statement No. 34 required a change in format of the financial statements, including management's discussion and analysis of operations, which has been included with the financial statements.

#### Cash and Cash Equivalents

Cash and cash equivalents includes cash and all liquid securities with maturities of 90 days or less when purchased. All amounts on deposit are uncollateralized.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

The Authority is invested primarily in fixed maturity securities and mutual fund shares. Investments are stated at fair value in the statements of net assets. All investment income (loss), including changes in the fair value of investments, is recognized as revenue or expense in the statements of revenue, expenses, and changes in net assets. All investments are uninsured and unregistered with securities held with a trustee in the Authority's name.

#### Member Contributions

Member contributions related to amounts to be expended for reinsurance coverage, claim payments in excess of individual members' self-insured retentions (SIR), and certain general and administrative expenses, are recognized as revenue in the year to which they apply. Member loss contributions are determined in accordance with the terms of the Joint Exercise of Powers Agreement (JPA) and underwriting guidelines established by the Authority. The JPA is the primary governing document for the Authority.

Member contributions related to claims costs that fall within the members' self-insured retention are reflected as member funds held on deposit. Member contributions for this are determined in accordance with the terms of the Joint Powers Agreement. The Executive Director of the Authority may authorize distributions to individual members in the event that their funds held on deposit are determined to be sufficient to do so.

#### Unearned Contributions

Unearned contributions represent contributions invoiced during the year, which cover a period extending beyond the end of the fiscal year and, thus, remain unearned as of year-end.

#### Other Liabilities

Other current liabilities consist of outstanding checks and pending fixed maturity security purchases at June 30. The Authority generally maintains a zero balance cash account and has an arrangement with the bank for required funds to be transferred from its investment account when checks clear the bank.



# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Reserves for Claims and Claim Adjustment Expenses

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The Authority retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by the Authority.

Premium deficiency is defined as the amount by which expected claims costs (including IBNR), and all expected claims adjustment expenses exceed related unearned premiums. The Authority has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income.

#### Office Building

The office building is recorded at cost and is being depreciated on a straight-line basis over fifteen years. Accumulated depreciation at June 30, 2004 and 2003 is \$1,261,944 and \$1,143,637, respectively.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### **Federal Income Taxes**

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows local governmental units to provide joint funding for risk management and self-insurance purposes, and as such, are not subject to Federal income tax under section 115 of the Internal Revenue Code of 1986.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Reclassification**

Certain amounts presented in the 2003 financial statements have been reclassified to the 2004 method of presentation.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 3. Member Funds Held on Deposit

This account consists of those economic resources of the members held by the Authority used for obligations of the members including loss payments and defense costs up to the members' self-insured retention (SIR) amount. In addition, economic resources in this account are used to pay certain other legal and meeting expenses of the members. It has been included in the accompanying financial statements as a liability for the amount received but not yet earned or expended on claims costs. The following is a summary of the change in member funds held on deposit during the years ended June 30:

	2004	2003
Member contributions	\$ 16,453,688	\$ 14,699,018
Claims and related costs:		
Member claims and claims adjustment costs paid, net of subrogation receipts	13,366,402	13,363,214
General legal fees	152,239	207,499
State assessments and direct meeting costs	1,554,370	1,020,606
Funds distributed to members	206,712	508,845
Total claims and related costs	15,279,723	15,100,164
Excess (deficiency) of member contributions before interest over claims and related costs	1,173,965	(401,146)
Interest on member funds	796,778	682,710
Excess of member contributions and interest over claims and related costs	1,970,743	281,564
Member funds held on deposit, beginning of year	12,220,491	11,938,927
Member funds held on deposit, end of year	<u>\$ 14,191,234</u>	<u>\$ 12,220,491</u>

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 4. Loss Coverage

Loss coverage for general and auto liability and property is structured on a three layer basis with each member retaining a portion of its losses. The layers are divided into three levels of risk retention whereby the members, the Authority and the reinsurance carriers share the risk. Loss coverage for auto physical damage is shared between the members and the Authority.

#### Member Retention Level

A member's self-insured retention varies depending on the type of claim and the agreement entered into with the Authority. The table below displays the amount of risk retained by the member for general and auto liability, property, and auto physical damage.

#### Authority Retained Risk Program

This program consists of those economic resources of the Authority which have been restricted to pay losses incurred by members which exceed the members' (self insurance retention layer) SIR and are not covered under existing reinsurance agreements. During 2004 and 2003, the Authority agreed to retain certain levels of risk, rather than obtaining coverage through reinsurance agreements. The table below presents a summary of the amount of risk retained by the Authority for general and auto liability, property, and auto physical damage.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 4. Loss Coverage (continued)

#### Reinsurance Agreements

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority or the members. The table below displays the amount of risk retained by the reinsurer for general and auto liability, property, and auto physical damage.

Policy	Member SIR	Authority Coverage	Reinsurance
General and Auto Liability	\$50,000 to \$75,000 <sup>(1)</sup> per occurrence	Individual claims between members' SIR and \$1,000,000 and 15.0% of the next \$4,000,000 <sup>(2)</sup>	Individual claims in excess of the Authority's coverage up to \$15 million per occurrence <sup>(3)</sup>  Individual claims resulting from terrorism in excess of the Authority's coverage up to \$4 million over the life of the treaty
Property	\$1,000 deductible plus 10% up to \$100,000 per occurrence <sup>(6)</sup>	90% of the first \$100,000 after the deductible, plus 100% of the next \$400,000 per occurrence	Individual claims in excess of the Authority's coverage up to the predetermined maximum limits for each member <sup>(4)</sup>  Individual claims resulting from terrorism in excess of the Authority's coverage up to \$25 million over the life of the treaty.
Auto Physical Damage	\$15,000 per unit and \$30,000 <sup>(5)</sup> per occurrence	Individual claims up to \$1,500,000 after members' SIR	No reinsurance coverage

(1) certain members have higher retention levels and/or deductibles

(2) 27.5% until March 31, 2004 and 15.0% thereafter

(3) certain members have higher limits of liability per occurrence

(4) limit based on value of property being insured

(5) after a \$1,000 deductible

(6) some members have higher deductibles

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 4. Loss Coverage (continued)

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be paid by the Authority using funds contributed by members for this purpose.

The Authority has also retained some risk for an intergovernmental agency that is an affiliated entity, but not a member of the organization. As such, a portion of the activity recorded relates to this organization. Contributions paid by this organization for the coverage levels are shown as loss contributions from associated programs. The Authority is responsible for payment of unreimbursed claims due to insolvent reinsurers for this organization.

#### Member Stop-Loss Program

In addition to the member coverage described above, the Authority provides optional stop-loss coverage to members to limit the aggregate losses paid by one member in any one year. The Authority has entered into an agreement with participating members whereby total paid losses in any one fiscal year, net of reinsurance recoveries, which are in excess of a predetermined entry point will be paid by the stop-loss program. Allocations to the stop-loss program are based on a percent of contributions.

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	Years ended June 30	
	2004	2003
Member contributions:		
Direct	\$ 48,281,979	\$ 41,691,304
Ceded	(14,069,985)	(13,247,813)
Total member contributions, net	<u>\$ 34,211,994</u>	<u>\$ 28,443,491</u>
Claims and claim adjustment expenses paid	\$ 17,461,184	\$ 25,096,581
Reinsurance recoveries	(3,630,702)	(7,146,354)
Total claims and claim adjustment expenses paid	<u>\$ 13,830,482</u>	<u>\$ 17,950,227</u>

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 5. Investments

The Authority's investments as of June 30, 2004 and 2003 consist primarily of fixed maturity securities and mutual fund shares and has included all realized and unrealized gains and losses in the statement of revenues, expenses and changes in net assets. The calculation of the net increase in the fair value of investments for the years ended June 30 is as follows:

	2004	2003
Fair value of investments at end of year	\$177,049,063	\$148,608,299
Cost of investments at end of year	162,102,651	145,202,354
Unrealized gains in investments at end of year	14,946,412	3,405,945
Prior year unrealized gains (losses) in investments at end of year	3,405,945	(2,286,864)
Change in fair value of investments	\$ 11,540,467	\$ 5,692,809

Calculation of realized gain (loss) is independent of a calculation of the net change in the fair value of investments and is as follows:

	Cost	Sales Price	Total Realized Gain (Loss)
Year ended June 30, 2004:			
Mutual funds - equity securities	\$ 9,057,282	\$ 11,000,000	\$ 1,942,718
Mutual funds - bonds	67,111,577	68,860,531	1,748,954
Total investments	\$ 76,168,859	\$ 79,860,531	\$ 3,691,672
Year ended June 30, 2003:			
Mutual funds - equity securities	\$ 21,207,528	\$ 17,516,940	\$ (3,690,588)
Mutual funds - bonds	6,267,012	6,800,000	532,988
Total investments	\$ 27,474,540	\$ 24,316,940	\$ (3,157,600)

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 5. Investments (continued)

Calculation of unrealized gain (loss) is as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
June 30, 2004:			
Government securities	\$ 4,986,615	\$ 4,986,615	\$ -
Mutual funds - equity securities	105,879,166	120,642,656	14,763,490
Fixed-maturity securities	50,092,012	50,274,934	182,922
Investment in government entity	1,144,858	1,144,858	-
Total investments	<u>\$ 162,102,651</u>	<u>\$ 177,049,063</u>	<u>\$ 14,946,412</u>
June 30, 2003:			
Government securities	\$ 4,973,750	\$ 4,973,750	\$ -
Mutual funds - equity securities	76,427,700	74,479,886	(1,947,814)
Mutual funds - bonds	63,300,904	68,654,663	5,353,759
Investment in government entity	500,000	500,000	-
Total investments	<u>\$ 145,202,354</u>	<u>\$ 148,608,299</u>	<u>\$ 3,405,945</u>

The level of risk changes when securities are not held by the Authority or registered in its name. At June 30, 2004 and 2003, all investments are held by a bank acting as a custodian.

At June 30, 2004 and 2003, a \$5,000,000 bond was held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by the Statute.

### 6. Reserves for Claim and Claim Adjustment Expenses

As discussed in Note 2, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of claims and claim adjustment expenses.



# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 6. Reserves for Claim and Claim Adjustment Expenses (continued)

The following represents changes in those aggregate liabilities for the Authority for the years ended June 30:

	2004	2003
Unpaid claims and claim adjustment expenses at beginning of the fiscal year, net	\$ 71,656,346	\$ 75,660,506
Incurred claims and claim adjustment expenses provision for insured events of the current fiscal year	27,541,988	27,065,959
Decrease in provision for insured events of prior fiscal years	(11,331,674)	(13,119,892)
Total incurred claims and claim adjustment expenses, net	16,210,314	13,946,067
Payments, net:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(1,352,545)	(2,886,170)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(12,477,937)	(15,064,057)
Total payments, net	(13,830,482)	(17,950,227)
Total unpaid claims and claim adjustment expenses at end of the fiscal year, net	\$ 74,036,178	\$ 71,656,346

The foregoing indicates that a redundancy of approximately \$11,300,000 and \$13,100,000 in the 2003 and 2002 reserves emerged in 2004 and 2003, respectively. The redundancy was attributable to favorable claim settlements achieved through facilitation where several high profile claims were settled below the initial reserve estimates. The favorable reserve development that emerged in 2004 was primarily related to the 2000 through 2003 accident years. Included in the provision for insured events of prior fiscal years are expenses related to events that occurred in previous years, but does not require refunds of premiums to members.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements (continued)

### 7. Employee Benefits

The Authority funds a 401(a) defined contribution plan (the Plan) which provides retirement benefits to its employees. Amounts contributed to the Plan by the Authority are based on 15% of the Executive Director's W-2 income and 12% of all other employees' W-2 income. An employee must be employed one year before becoming eligible. Contributions were approximately \$216,000 and \$203,000 in fiscal years 2004 and 2003, respectively.

Effective July 1, 1999, the Authority adopted a Post Employment Health Plan (PEHP), a defined contribution health plan, to fund employee health benefits after terminating employment. All employees that are eligible for the Plan, are also eligible for the PEHP. The PEHP is funded entirely by Authority contributions and is based on a formula which results in the same amount being contributed for each eligible employee. The employees have the ability to direct its portion of the funds into various investment options. The investment balances can be used by the terminating employee for eligible benefits under the program. After remitting the Authority's contribution for the employees, the Authority is not liable for any additional costs related to terminating employees. Upon commencement of the PEHP plan, the Authority funded an amount to recognize prior service costs. During fiscal years 2004 and 2003, the Authority contributed approximately \$49,000 and \$46,000, respectively.

The Authority also allows eligible employees the option of deferring compensation to future periods. The eligible employee can elect to have a portion of their salary remitted to the International City Managers Association for future withdrawal as compensation. The Authority does not maintain the deferred compensation funds, and does not defer this compensation cost. As such, included in the statements of revenues, expenses and changes in net assets is compensation expense earned by employees during the year, regardless of whether the employee receives funds for compensation or elects to defer a portion of their compensation through this program.

### 8. Litigation Matters

The Authority is involved in various litigation and legal matters, which are being defended and handled in the ordinary course of business. The costs of any claims ultimately paid to cover the Authority's portion of a legal obligation, with respect to these matters constitute expenses to the Authority. In the opinion of the Authority's management and legal counsel, the ultimate resolution of these various litigation issues will not have a material effect on the Authority and its members.

# Michigan Municipal Risk Management Authority

## Supplemental Claims Development Information Schedule (Unaudited) (continued)

(In Thousands of Dollars)

The table below illustrates how the Authority's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's premium revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Authority including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows the Authority's incurred claims and claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of losses assumed by reinsurer for each year. (6) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares to the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
1) Premiums and investment revenues:											
Earned											
Ceded	\$ 57,799,986	\$ 43,545,899	\$ 13,694,683	\$ 39,151,457	\$ 33,398,313	\$ 45,905,155	\$ 45,337,083	\$ 36,597,113	\$ 38,379,205	\$ 31,121,013	\$ 29,811,901
Net earned	14,069,985	13,247,813	12,751,916	7,673,013	7,623,509	6,311,948	5,109,520	5,771,614	6,517,107	7,980,251	9,797,573
2) Unallocated expenses	43,730,001	30,298,086	942,767	31,478,444	45,774,804	39,593,207	40,227,563	30,825,499	31,862,098	23,140,762	20,014,328
3) Estimated incurred claims and expenses, end of policy year:	9,121,140	8,489,028	7,875,954	7,742,554	7,258,409	6,700,960	6,379,930	5,550,003	5,111,352	5,114,005	5,339,062
Incurred											
Ceded	30,169	34,113	28,080	45,115	23,060	27,828	23,498	21,195	20,017	23,536	16,848
Net incurred	2,627	7,047	1,127	19,978	102	143	2,500	152	-	-	5
4) Cumulative paid as of:	27,542	27,066	26,953	25,137	22,958	27,685	20,998	21,043	20,017	23,536	16,843
End of policy year											
One year later	1,352	2,886	1,721	3,593	1,297	2,833	1,230	1,328	823	735	462
Two years later	-	5,040	4,342	5,965	3,285	4,514	3,236	3,637	3,217	2,356	2,403
Three years later	-	-	6,188	8,595	7,452	7,185	7,250	8,433	6,912	4,954	5,335
Four years later	-	-	-	10,875	12,117	8,784	12,213	10,573	8,477	6,867	6,934
Five years later	-	-	-	-	14,339	10,461	13,781	12,898	9,420	8,311	8,244
Six years later	-	-	-	-	-	11,516	14,486	15,079	9,702	8,383	9,972
Seven years later	-	-	-	-	-	-	15,286	16,177	10,607	8,855	10,067
Eight years later	-	-	-	-	-	-	-	16,243	11,335	8,907	10,140
Nine years later	-	-	-	-	-	-	-	-	11,335	8,925	10,142
5) Re-estimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-	-
6) Re-estimated incurred claims and expenses (undiscounted):	2,627	7,047	1,127	19,978	102	143	2,500	152	-	-	5
End of policy year											
One year later	27,542	27,066	26,953	25,137	22,958	27,685	20,998	21,043	20,017	23,536	16,843
Two years later	-	25,489	23,691	28,572	20,213	23,770	22,244	20,063	19,743	16,292	18,012
Three years later	-	-	18,160	23,867	20,783	16,632	19,407	18,482	14,896	14,351	11,998
Four years later	-	-	-	17,678	18,498	15,687	18,779	17,492	13,482	11,490	12,183
Five years later	-	-	-	-	18,710	12,612	16,361	18,618	12,267	10,200	11,613
Six years later	-	-	-	-	-	12,890	16,351	18,089	11,508	9,413	11,598
Seven years later	-	-	-	-	-	-	16,770	17,903	11,290	9,586	11,462
Eight years later	-	-	-	-	-	-	-	17,424	11,697	9,308	10,933
Nine years later	-	-	-	-	-	-	-	-	11,335	9,195	10,865
7) Decrease in estimated incurred claims expense from end of policy year	-	(1,577)	(8,793)	(7,459)	(4,248)	(14,795)	(4,228)	(3,619)	(8,682)	(14,425)	(6,052)

# Michigan Municipal Risk Management Authority

## Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (Unaudited)

The table below presents the changes in unpaid claims and claims adjustment expense liability for the Authority's lines of business.

	Fiscal and Policy Years ended June 30							
	2004				2003			
	Liability	Property	Auto Physical Damage	Total	Liability	Property	Auto Physical Damage	Total
	<i>(In Thousands of Dollars)</i>							
Unpaid claims and claims adjustment expense liability at beginning of fiscal year	\$ 69,948	\$ 1,162	\$ 546	\$ 71,656	\$ 74,176	\$ 1,413	\$ 71	\$ 75,660
Incurred claims and claims adjustment expenses:								
Provision for insured events of the current fiscal year	25,226	2,174	142	27,542	23,386	3,016	664	27,066
Decrease in provision for insured events of prior fiscal years	(11,055)	(82)	(195)	(11,332)	(12,621)	(463)	(36)	(13,120)
Total incurred claims and claims adjustment expenses	14,171	2,092	(53)	16,210	10,765	2,553	628	13,946
Payments:								
Claims and claims adjustment expense attributable to insured events of the current fiscal year	(299)	(980)	(73)	(1,352)	(801)	(1,968)	(117)	(2,886)
Claims and claims adjustment expense attributable to insured events of prior fiscal years	(11,233)	(902)	(343)	(12,478)	(14,192)	(837)	(35)	(15,064)
Total claims and claims adjustment expense payments	(11,532)	(1,882)	(416)	(13,830)	(14,993)	(2,805)	(152)	(17,950)
Total unpaid claims and claims adjustment expense liability at end of the fiscal year	\$ 72,587	\$ 1,372	\$ 77	\$ 74,036	\$ 69,948	\$ 1,161	\$ 547	\$ 71,656